

# **EXAMINING THE SUSTAINABILITY OF SOCIAL ENTERPRISE IN CONTEMPORARY KOREA**

**By**

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## **ABSTRACT**

This research examines the sustainability of contemporary Korean social enterprise. The sustainability problem in Korea has been a critical issue to practitioners, scholars and government officials since the enactment of Social Enterprise Promotion Act in 2006. Stakeholders in Korea do not believe that social enterprise is sustainable enough, despite a large amount of public financial support. To explore this issue, first of all, this research develops a theoretical framework, a comprehensive approach on sustainability, drawing mainly on Giddens' structuration theory. This approach presents two categories that influence sustainability: structural factors (the social economy, market type and public policy) and agency factors (social entrepreneur, staff, organization and finance). Second, based on the literature and the theoretical framework, thesis questions that aim to examine the term sustainability, the factors affecting sustainability and their effects, and public policy, are constructed. Third, to obtain research findings, both descriptive secondary analysis of data and case studies are used, and analysis of the case studies is presented with a narrative form. Finally, this research explains that, in Korea, sustainability is understood in three dimensions: profit, social mission, and continuity of business without public money. The thesis shows that stakeholders understand structural and agency factors influence organizational sustainability, while focus points are different according to people. Regarding policy, they believe that a public-led system has to be replaced by a private-led initiative, concentrating on cultivation of a better environment for social enterprise.

## **DEDICATION**

**I DEDICATE MY THESIS TO MY BELOVED FAMILY**

**MY LOVELY WIFE, JIEUN PARK,  
WHO GAVE ME HER LIMITLESS SUPPORT AND PRICELESS ADVICE  
DURING MY THREE YEARS OF RESEACH**

**MY SON, WOORYOUNG LEE,  
WHO SUCCEEDED IN AN UNFAMILIAR LIFE IN A FOREIGN COUNTRY**

**MY PARENTS, SOODON LEE AND YOUNGSUK KIM  
WHO HAVE ALWAYS PLAYED FOR MY SIDE**

**MY PARENTS-IN-LAW, JONGKWAN PARK AND INSOOK HONG  
WHO GAVE ME MY MOST PRECIOUS PERSON**

**AND**

**I WOULD LIKE TO DEDICATE THIS WORK TO MY THREE PROUD  
YOUNGER BROTHERS, A SISTER-IN-LAW, AND A BROTHER-IN-LAW**

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## TABLE OF CONTENTS

ABSTRACT .....	i
DEDICATION .....	ii
ACKNOWLEDGEMENTS .....	iii
TABLE OF CONTENTS .....	iv
LIST OF FIGURES .....	x
LIST OF TABLES .....	xi
LIST OF ABBREVIATIONS .....	xiv
CHAPTER 1 INTRODUCTION .....	1
1.1 Research Motivation .....	1
1.2 Research Purposes and Questions .....	5
1.3 Methodology .....	9
1.4 An Outline of the Thesis .....	11
CHAPTER 2 SOCIAL ENTERPRISE IN KOREA AND THE WESTERN COUNTRIES .....	15
2.1 Introduction .....	15
2.2 Social Enterprise in Korea .....	17

2.2.1	<i>Historical Context .....</i>	17
2.2.2	<i>Definition, Type and Size.....</i>	22
2.2.3	<i>Legal Environment and Support Structure.....</i>	24
<b>2.3</b>	<b>Social Enterprise in the Western Countries .....</b>	<b>26</b>
2.3.1	<i>The UK .....</i>	26
2.3.2	<i>Italy.....</i>	34
2.3.3	<i>The USA.....</i>	42
<b>2.4</b>	<b>Conclusion.....</b>	<b>51</b>
<b>CHAPTER 3</b>	<b>THEORETICAL FRAMEWORK .....</b>	<b>55</b>
<b>3.1</b>	<b>Introduction.....</b>	<b>55</b>
<b>3.2</b>	<b>Theoretical Basis .....</b>	<b>56</b>
3.2.1	<i>Sustainability of Social Enterprise .....</i>	56
3.2.2	<i>Structuration Theory .....</i>	60
3.2.3	<i>Integrative Framework for Understanding Organizational Failure.....</i>	67
3.2.4	<i>Literature on Factors Influencing the Success or Sustainability of Social Enterprises .....</i>	77
3.2.5	<i>Social Entrepreneurship.....</i>	86
<b>3.3</b>	<b>Theoretical Framework: Comprehensive Approach .....</b>	<b>95</b>
3.3.1	<i>Structural Factors .....</i>	95
3.3.2	<i>Agency Factors.....</i>	97
<b>3.4</b>	<b>Conclusion.....</b>	<b>100</b>

<b>CHAPTER 4</b>	<b>METHODOLOGY.....</b>	<b>101</b>
<b>4.1</b>	<b>Introduction.....</b>	<b>101</b>
<b>4.2</b>	<b>Developing Research Questions .....</b>	<b>102</b>
<b>4.3</b>	<b>Methodological Strategy.....</b>	<b>106</b>
4.3.1	<i>Research Philosophy.....</i>	<i>106</i>
4.3.2	<i>Mixed Strategy.....</i>	<i>110</i>
<b>4.4</b>	<b>Research Design .....</b>	<b>112</b>
4.4.1	<i>Descriptive Secondary Analysis of Data .....</i>	<i>112</i>
4.4.2	<i>Case Study.....</i>	<i>115</i>
<b>4.5</b>	<b>Details of the Case Study .....</b>	<b>116</b>
4.5.1	<i>Unit of Analysis .....</i>	<i>116</i>
4.5.2	<i>Case Selection .....</i>	<i>118</i>
4.5.3	<i>Data Collection .....</i>	<i>128</i>
4.5.4	<i>Data Analysis .....</i>	<i>140</i>
<b>4.6</b>	<b>Conclusion.....</b>	<b>147</b>
<b>CHAPTER 5</b>	<b>STRUCTURAL CONTEXT IN KOREA .....</b>	<b>148</b>
<b>5.1</b>	<b>Introduction.....</b>	<b>148</b>
<b>5.2</b>	<b>Social Economy Context.....</b>	<b>149</b>
5.2.1	<i>Social Economy or Non-profit Sector.....</i>	<i>150</i>
5.2.2	<i>History.....</i>	<i>156</i>
5.2.3	<i>Scope of the Social Economy.....</i>	<i>161</i>



5.2.4	<i>Relationship with the Sustainability of Social Enterprises.....</i>	174
<b>5.3</b>	<b>Market Type .....</b>	<b>177</b>
5.3.1	<i>Market and Social Enterprise Development.....</i>	177
5.3.2	<i>Current Situations of Social Enterprise by Market Types in Korea.....</i>	182
5.3.3	<i>Estimation of Sustainability according to the Researcher's Criteria.....</i>	190
<b>5.4</b>	<b>Policy Context.....</b>	<b>192</b>
5.4.1	<i>Certification System .....</i>	194
5.4.2	<i>Important Public Support Programs for Social Enterprises .....</i>	197
5.4.3	<i>Influence on the Sustainability of Social Enterprise .....</i>	210
<b>5.5</b>	<b>Conclusion.....</b>	<b>213</b>
<b>CHAPTER 6</b>	<b>CASE STUDY FINDINGS .....</b>	<b>215</b>
<b>6.1</b>	<b>Introduction .....</b>	<b>215</b>
<b>6.2</b>	<b>General Information on Cases .....</b>	<b>216</b>
<b>6.3</b>	<b>Conceptual Picture of the Sustainability of Social Enterprise .....</b>	<b>228</b>
<b>6.4</b>	<b>Structural Elements .....</b>	<b>235</b>
6.4.1	<i>Polarized Opinion on the Social Economy.....</i>	236
6.4.2	<i>Strong Confidence in the Sustainability of their Business Type.....</i>	243
6.4.3	<i>Positive but Not Enough Policy Contexts.....</i>	249
<b>6.5</b>	<b>Agency Elements .....</b>	<b>257</b>
6.5.1	<i>Importance of Social Entrepreneurs .....</i>	257
6.5.2	<i>Members' Understanding and Empathy for the Mission and Aim of</i>	

<i>Organizations</i> .....	263
6.5.3 <i>Horizontal Culture for Sustainable Organizations</i> .....	268
6.5.4 <i>Organizational Change as a Strategy for Sustainability</i> .....	271
6.5.5 <i>Difficulties in Funding</i> .....	275
<b>6.6    Conclusion</b> .....	<b>278</b>
 <b>CHAPTER 7    DISCUSSION</b> .....	<b>282</b>
 7.1 <b>Introduction</b> .....	<b>282</b>
7.2 <b>The Meaning of Sustainability of Social Enterprises in the Korean Context.</b>	<b>283</b>
7.2.1 <i>Debates on Earned-Income Strategy</i> .....	283
7.2.2 <i>Sustainability in the Field</i> .....	284
7.2.3 <i>Sustainability in the Policy Context</i> .....	289
7.3 <b>Social Entrepreneurship and Sustainability</b> .....	<b>291</b>
7.4 <b>Policy Implications</b> .....	<b>297</b>
7.4.1 <i>Evaluation of Policy</i> .....	298
7.4.2 <i>Policy Recommendations</i> .....	300
7.5 <b>Conclusion</b> .....	<b>315</b>
 <b>CHAPTER 8    CONCLUSION</b> .....	<b>317</b>
 8.1 <b>Introduction</b> .....	<b>317</b>
8.2 <b>Answers to the Research Questions</b> .....	<b>318</b>
8.3 <b>Evaluation of the Research</b> .....	<b>326</b>

8.4	Future Research Issues .....	330
<b>APPENDIX .....</b>		<b>333</b>
1.	Situation of Each Market (2010), reconstituted from Gwak's work (2011) ...	333
2.	Interviewees in the Case Studies .....	336
3.	Interview Guide.....	342
4.	An Example of Constructing a Narrative .....	346
<b>REFERENCES.....</b>		<b>350</b>

## LIST OF FIGURES

Figure 3-1) Cycle of structure, agent and agency.....	65
Figure 3-2) Integrative framework .....	75
Figure 3-3) Comprehensive approach .....	99
Figure 5-1) Korean social enterprise by market type (2010) .....	185
Figure 5-2) Average number of employees by market type (2010) .....	186

## LIST OF TABLES

Table 2-1) Evolution of social enterprise policy .....	22
Table 2-2) Social enterprises in four countries.....	54
Table 3-1) Factors influencing the success or sustainability of social enterprises.....	78
Table 3-2) Definitions of social entrepreneurship and social entrepreneurs .....	91
Table 4-1) Complementary combinations of qualitative and quantitative research: the priority-sequence model .....	112
Table 4-2) Models of social enterprises according to social and financial outcome..	123
Table 4-3) Ideal sample cases selected in Seoul (examples).....	124
Table 4-4) General information on selected cases (2011).....	127
Table 4-5) Number and composition of interviewees .....	131
Table 4-6) Labov's elements of fully formed narrative .....	145
Table 5-1) Differences between the social economy and the non-profit perspective	155

Table 5-2) Scope of the social economy in Korea.....	161
Table 5-3) Examples of social economic organizations by area of economic activities .....	162
Table 5-4) Number of non-profit organizations by legal status (2010).....	169
Table 5-5) Number of non-profit organizations (including unincorporated organizations) (2006 and 2007).....	170
Table 5-6) Non-profit organization distribution according to activity area (2008)....	171
Table 5-7) Number of social enterprises by market (2010).....	184
Table 5-8) Employees and average assets of social enterprises by market type (2010) .....	186
Table 5-9) Average sales and average profits (2010), unit: million ₩ (1,000 £) .....	187
Table 5-10) Business on the public market (2010).....	189
Table 5-11) Annual budget for social enterprise promotion in Korea .....	193
Table 5-12) Social enterprise promotion programs .....	198
Table 5-13) Period of government support .....	212

Table 6-1) Summary of the cases (2011).....	228
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Table 7-1) Important government initiatives for the social economy .....	308
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## **LIST OF ABBREVIATIONS**

Community Interest Company	(CIC)
Department for Trade and Industry	(DTI)
Industrial Organization Perspective	(IO)
Internal Revenue Service	(IRS)
Korean Social Enterprise Conference	(KSEC)
Korean Social Enterprise Promotion Agency	(KOSEA)
Local Exchange Trading Systems	(LETS)
Mergers and Acquisitions	(M&A)
Ministry of Employment and Labour	(MOEL)
Ministry of Health and Welfare	(MOHW)
National Basic Livelihood Security	(NBLS)
Non-Profit Organizations	(NPOs)



Office for Civil Society	(OCS)
Office of the President	(OP)
Office of the Third Sector	(OTS)
Organizational Ecology Perspective	(OE)
Organizational Psychology	(OP)
Organization Studies	(OS)
Public Relations	(PR)
Public Work Program	(PWP)
Secretary to the President for Employment and Labour Policy	(SELP)
Secretary to the President for Low and Middle Income People's Policy	(SLP)
Social Enterprise Coalition	(SEC)
Social Enterprise Job Creation Program	(SEJCP)
Social Enterprise London	(SEL)

Social Enterprise Promotion Act (SEPA)

Social Enterprise Unit (SEU)

Self-Support Program (SSP)

Social Workplace Program (SWP)

## **CHAPTER 1      INTRODUCTION**

### **1.1   Research Motivation**

#### **The Experience of Taking Charge of Social Enterprise Promotion Policy**

In this empirical study, the main research interest is the sustainability of Korean social enterprises. This research interest can be said to have principally originated from the researcher's job as a government official in the Office of the President (OP) in Korea from 2010 to 2011. In 2010, the researcher, as a member of staff in the Prime Minister's Office, was dispatched to the bureau of the Secretary to the President for Low and Middle Income People's Policy (SLP). Unlike the jobs of other secretaries to the President, which were structured according to a government organization, and so each corresponded to a particular ministry, that of SLP was created especially for its function. In other words, the Secretary could work with all ministries in areas where their policy was related to low and middle income people, while other secretaries usually worked just with their own ministry.

At that time the Ministry of Employment and Labour (MOEL) was conducting a social enterprise promotion policy as one of the core agendas of the administration intended to focus on job creation. Accordingly, the Secretary to the President for Employment

and Labour (SELP) was coordinating related policy in the OP. However, the Chief of Staff in the OP, who had served as Minister at the MOEL before he was appointed to his current position, moved the task from the SELP to the SLP. In a meeting he argued that the social enterprise agenda should not be led by just one ministry but that responsibility should be shared by the entire government. He believed that initiatives by the MOEL alone would be limited and would not necessarily lead to the successful promotion of Korean social enterprises; so he decided to transfer the mission to the researcher's bureau, which could cover and work with various ministries.

To the researcher, however, the concept of social enterprise was relatively new and dealing with social enterprise policy was a challenging business. The researcher would have to meet diverse stakeholders and discuss critical issues in conferences, seminars, meetings and social enterprise fields. One of the phrases most frequently heard by the researcher in his job at that time was 'the sustainability of social enterprise'. In fact, the achievement of the sustainability of social enterprise was not an emerging policy issue for the moment. Briefly speaking, since the detailed story will be presented in the next chapter, from around 2007 the Korean government initiated a social enterprise movement as a vehicle for creating sustainable jobs, replacing previous programmes that had been criticized as temporary and unsustainable (Cho et al., 2007). Since 1998, programmes such as the Public Work Program (PWP), the Self-Support Program (SSP) and the Social Workplace Program (SWP) had shown sustainability problems because they had supplied only short-term and menial positions to disadvantaged people,

depending on public funds. Therefore, if social enterprise was regarded as one of job creation programmes, the sustainability issue might have been going on since 1998.

Korean social enterprise had been officially recognized in 2006, with the enactment of the Social Enterprise Promotion Act (SEPA). One important point about this recognition is the fact that Korea selected a certification scheme for social enterprise promotion. In other words, no organization could call itself a social enterprise unless it obtained a certificate from government. Through the certification structure, the Act was intended to increase and maintain the credibility of social enterprises so that they could acquire significant public resources (H.-W. Kim, 2011a; Lee, 2009). As a result of this, a social enterprise in Korea commonly means an organization certified as a social enterprise by government. Based on the certification system, public resources, including a budget of about ₩ 100 billion, have flowed into the certified organizations annually. In spite of significant public support, however, many practitioners, scholars and government officials still did not think of these organizations as sufficiently sustainable. The researcher and colleagues in the same office were enthralled by the idea of finding solutions to improve the sustainability of certified social enterprises. How could the sustainability of social enterprise be improved? Why were Korean social enterprises evaluated as unsustainable in spite of huge amounts of government subsidy? Which elements influenced the sustainability? How could government policy help improve it? How should social enterprise policy be developed from this point on? The researcher agonized about those questions in his job every day.

When he finished his job in the OP and had a chance to study abroad with a government scholarship, the researcher decided to choose the sustainability of Korean social enterprise as a research topic. Moreover, the UK, where social enterprise is highly developed, seemed as attractive and appropriate place to study the topic.

### **A Critical Issue in Korean Social Enterprise: Sustainability**

As explained above, one of the critical issues in current Korean social enterprise initiatives is the sustainability problem (Cho et al., 2007; Gwak, 2011; Hwang et al., 2011; Lee, 2008). Especially in the social enterprise policy context, the modification of government support in order to raise sustainability has been critically debated. For example, in recent Social Enterprise Promotion Plans devised in 2010 and 2011, improvement of the sustainability of social organizations was significantly emphasized as a policy target (Korean Government, 2011; Ministry of Labour, 2010a). In particular, in order to enhance the sustainability, the 2011 plan presented several measures, such as diversifying finance streams, increasing the participation of social enterprises in the public market for social service provision, encouraging their participation in public procurement, and strengthening management support.

Stakeholders' concerns focus on the sustainability of social organizations, since a considerable number of them are believed to be sustained by government financial support, specifically the Social Enterprise Job Creation Program (SEJCP) or wage subsidies, which will be described in detail in Chapter 5. In spite of its partial

usefulness, the government-led social enterprise movement has been criticized by both researchers and practitioners. In particular, the wage subsidies made available through the SEJCP are thought to make social enterprises receiving this support more dependent on government (Choi, 2012; Hwang et al., 2011; H. Kim, 2011).

In short, the social enterprise agenda, which was expected to offer a sustainable job creation system, is not now widely considered as sustainable enough, even though government has supported it with a large amount of budget of more than ₩100 billion (about £60 million) every year. In this situation stakeholders in the sphere are seriously seeking solutions to improve the sustainability of social enterprise.

## **1.2 Research Purposes and Questions**

Based on the research background stated above, this study aimed to explore the sustainability of Korean social enterprise. More specifically, the researcher intended to achieve an understanding of the phenomenon surrounding sustainability within the Korean context. Identifying factors affecting sustainability and understanding their influence was to be achieved through this empirical research. In addition, the researcher sought to draw out desirable policy suggestions appropriate to improving the sustainability of Korean social enterprise. Those aims were derived from the researcher's experience of coordinating social enterprise promotion policy and from

discussion with significant players in the field, such as social entrepreneurs, researchers and government officials.

The three purposes of the research can be stated as below.

P1. To explore the various drivers influencing the sustainability of Korean social enterprise

P2. To examine the influences of these drivers on the sustainability of Korean social enterprise

P3. To present policy suggestions to improve the sustainability of Korean social enterprise

To achieve the research purposes, the researcher drew up specific research questions in three topic areas. The three areas and research questions were constructed on the basis of literature about social enterprises and social entrepreneurship, sustainability, structuration theory, and organization failure or success, as well as on government documents about social enterprise policy. In addition, the questions reflected the researcher's ideas about how to conduct this study, and these ideas will be explained in detail in the Chapter 3, which presents the theoretical framework.

The research questions constructed to address the research purposes are listed below.



- ***Sustainability***

Q1. How is the concept of the sustainability of social enterprise understood in the Korean context?

- ***Factors influencing the sustainability of social enterprise***

Q2. Which factors influence the sustainability of Korean social enterprise?

Q3. How do structural factors (social economy, market type and government policy) impact on the sustainability of Korean social enterprise?

Q4. How do agency factors (social entrepreneurs, employees, organizations and capital) impact on the sustainability of Korean social enterprise?

- ***Social enterprise promotion policy***

Q5. How efficient has Korean social enterprise promotion policy been in terms of improving sustainability?

Q6. In what directions do the actors consider that social enterprise promotion policy needs to be developed?

The first question is about stakeholders' understanding and usage of the term sustainability in relation to Korean social enterprise. To conduct the research,

clarifying the concept of sustainability was essential, because the term is given different meanings in different contexts. Therefore, trying to understand the usage of sustainability in the Korean context was a relevant starting question for the research.

The second question was constituted to recognize various elements influencing sustainability, and this would principally be done through the literature review in the process of constructing the researcher's theoretical framework. Drawing on this theoretical basis, the elements found would be categorized into structural factors and agency factors. The researcher would argue that social economy, market type and government policy could be included in the structural factors, while members of companies, organizations and capital could be put into the agency category.

The third and fourth questions aimed to discover how the elements identified in the second question affected sustainability. The third question could mainly be answered through case studies, as well as through descriptive secondary analysis of data, while the fourth one would basically be understood through semi-structured interviews in case studies.

With regard to questions in the policy area, the researcher aimed to comprehend how Korean social enterprise promotion policy had contributed to organizational sustainability with the fifth question. Both the stories of interviewees reproduced in the case studies and the literature would be employed to deal with the question. Based on his comprehension of policy evaluation and criticism found in this study, to respond to

the sixth question, the researcher would build several policy suggestions to improve the sustainability of Korean social enterprise.

### **1.3 Methodology**

This research explored the connection between sustainability and various factors influencing organizational issues. To respond to the specific research questions, based on a pragmatic stand point focusing on what works, rather than epistemological dualism, the research would take a mixed approach, including qualitative case studies as a main method, as well as descriptive secondary analysis of data as a preliminary and subsidiary one.

Through limited exploration of secondary data held by government, which had been created from annual reports on social enterprise, sustainability would be described by market types and the current picture of the sphere made clearer. The analysis would be a limited and descriptive one, because the researcher could only access processed data from the Korean Social Enterprise Promotion Agency (KOSEA) by request, and it was impossible to access and analyse raw data.

To conduct the case studies, seven cases, including one pilot case, were selected according to theoretical sampling strategy appropriate to qualitative study. According

to criteria for sample selection that were prepared drawing on the researcher's theoretical framework, cases likely to supply rich stories relating to sustainability were chosen with the cooperation with the KOSEA. Social enterprises in the study were divided into a sustainable group and a less sustainable group by the researcher's standards. Their business types were various, covering loan brokerage, education, senior care, catering, recycling and cleaning. Moreover, organizational size and age were considered among the case selection criteria. Data for the case studies were collected from interviews as well as annual reports, books like the *Social Enterprise Overview* and social enterprise magazines, government documents, and archival records on related internet homepages. As a main data collection technique, a semi-structured interview was employed as a method suitable for research that possesses clear points of inquiry and a theoretical framework (Bryman, 2008). In each case, two or three people were selected as interviewees and the number of respondents was 18 in total. The interviewees consisted of nine social entrepreneurs, eight members of staff and one volunteer.

With regard to data analysis of the interview texts, the researcher used the narrative approach as being appropriate to comprehending a complex issue (Currie and Brown, 2003) influenced by diverse elements: organizational sustainability. The researcher also took into consideration the fact that research employing a narrative analysis perspective in the field of social enterprise in Korea was scarcely to be found.

## **1.4 An Outline of the Thesis**

In this section, the structure of the thesis, which has eight chapters, is summarized.

Chapter 1 started by introducing the research motivation as the background of the study. Research purposes, research questions and an outline of the methodology employed followed.

Chapter 2 explains social enterprise in Korea as well as in the UK, Italy and the USA. First of all, the case of Korea is shown, focusing on its history, definition, type, size, legal environment and public support for social enterprise. Cases in the three countries that influenced the formation and development of Korean social enterprise are then introduced. These introductions follow the same explanation points that are employed in the Korean case. Each sub-section in the sections on the three countries ends by showing the influences on or implications for Korean social enterprise.

Chapter 3 introduces the researcher's theoretical framework, the comprehensive approach that leads the research process and is based on a review of the relevant literature. First of all, the researcher examines the concept of sustainability, since there is no unanimous definition or usage of the word in the academic field, although it is the main concept of the research. Then structuration theory, an integrative framework for understanding organizational failure, studies on social enterprise success factors and social entrepreneurship are explained as the basis of the researcher's approach.

Finally, the chapter offers the comprehensive approach to research into the sustainability of social enterprise. As the main categorical elements influencing sustainability, structural factors and agency factors are illuminated. With the work described in this chapter the researcher seeks to answer to the second research question (Q2. Which factors influence the sustainability of Korean social enterprise?)

Chapter 4 explicates the method and methodology of the research. The process of developing research questions is shown first. Based on pragmatic philosophy, the researcher presents a mixed strategy of preliminary quantitative and qualitative methods. Then the section on research design gives details of the preliminary quantitative method and an outline of a qualitative case study. The final section of the chapter describes the case study in detail. In this section, various issues, such as the logic of case selection and data collection methods, as well as data analysis, are examined.

Chapter 5 explores the structural factors of Korean social enterprises reviewing the social economy, market types and policy. The social economy sphere and policy context are examined, basically drawing on the literature and related public documents. The section on market types is constructed through descriptive secondary analysis of data. In this section, the estimation of sustainability by market type according to the researcher's criteria is presented. This chapter is connected to the third research

question (Q3. How do structural factors (the social economy, market type and government policy) impact on the sustainability of Korean social enterprise?)

Chapter 6 supplies the findings from the empirical investigations of the case studies. The chapter covers research questions 1, 3, 4, 5, and 6. Therefore, the chapter provides answers to the first question about the meaning of sustainability in Korean social enterprise (Q1). Then it shows the relationship between sustainability and structural and agency factors (Q3 and Q4). Regarding research questions 5 and 6, about the evaluation of government policy and its implications, the chapter presents limited answers, which are supplemented in the discussion chapter.

Chapter 7 discusses three issues derived from the research findings. First of all, the meaning of sustainability in Korean social enterprise is discussed, drawing on debates surrounding earned-income strategy. In addition, the understanding and usage of the term by government are examined through reviewing the literature and public documents. Secondly, the chapter discusses social entrepreneurship, a concept that is unclear although it is considered a core concept, and brings in studies defining the concept as well as comparing it with other similar activities. In the end, to address research questions 5 and 6 (Q5. How efficient has Korean social enterprise promotion policy been in terms of improving sustainability? Q6. In what directions do the actors consider social enterprise promotion policies need to be developed?), the chapter provides information about the evaluation of Korean social enterprise policy and

presents policy recommendations on the basis of the literature and the research findings.

Chapter 8 summarises what the researcher has done, and how, to find answers to the research questions. In addition, there is recapitulation of the critical findings and the contribution made by the research: and recommendations of future research are presented.



## **CHAPTER 2      SOCIAL ENTERPRISE IN KOREA AND THE WESTERN COUNTRIES**

### **2.1 Introduction**

The dimensional differences between social enterprise in different countries derive from the diverse contextual situations in which the concept of social enterprise has developed (Kerlin, 2006; Seong, 2013). The emergence and growth of Korean social enterprise is also embedded in the country's historical, social, culture and political contexts. To carry out effective research into the sustainability of Korean social enterprise requires us to examine these contexts. In addition, it is necessary to review the social enterprise of other countries that have influenced the development of Korean social enterprise. Through this task, a deeper understanding of the sustainability of Korean social enterprises should be possible.

In this chapter, general aspects of social enterprise movements in Korea, the UK, Italy and the USA will be introduced. The researcher has selected these three western countries because social enterprise systems in them are relevant to understanding the Korean case.

First of all, the three countries heavily influenced the enactment of the SEPA in Korea

in 2006 (Defourny and Kim, 2011; Lee, 2011). Bidet and Eum (2011) write that the Korean social movement groups that led the social enterprise discourse thought of European and US social enterprises as their role models. Government reports, including the Medium-and-Long-Term Policy Direction for Social Enterprise Promotion (2007), introduced the social enterprise experiences of the three countries as references. More specifically Defourny and Kim (2011) explain that Korean social enterprise schemes are clearly based on the Community Interest Company (CIC) of the UK and the social cooperative of Italy. And the market-oriented characteristic of the Korean Government's social enterprise approach was influenced by the American market friendly scheme (Park and Wilding, 2012). Therefore, a lot of systemic features of Korean social enterprise reflect the experiences of the three western countries.

Moreover, the social enterprise movements of the UK, Italy and the USA are considered successful examples even though each model shows quite different characteristics. According to Cho (2007), a desirable Korean social enterprise promotion policy can be constructed by basing it on case studies of the UK, Italy and the USA where the social enterprise movement is well developed.

Through outlining social enterprise in the four countries, the context, concept and overall system in Korea will be identified more clearly. The social enterprise of each country will be described in terms of its historical context, concepts, types, sizes, legal environment, support structure, and its influence on Korean social enterprise.

## **2.2 Social Enterprise in Korea**

### **2.2.1 Historical Context**

The emergence of social enterprise in Korea is deeply embedded in the development of the country's social economy and civil society (Bidet and Eum, 2011), even though the sector was insufficiently developed compared to those of the western countries (S.-Y. Kim, 2009; Lee, 2009; Park, 2008). In this section, the direct emergence of Korean social enterprise in the late 1990s will be explained; and the existence of similar organizations before the 1990s will be introduced, though briefly, since the researcher will provide more details in a sub-chapter of 5.2 Social Economy Context.

Early cooperatives, such as the Kyungsung and Mokpo Consumer Cooperatives, were first created in 1920. Activists in agricultural organizations formed a committee to create agricultural cooperatives in 1951 (Shin et al., 2012), and then the Agricultural Cooperative Act was enacted in 1957. Korean agriculture cooperatives have shown a successful development path so they have come to represent Korean cooperatives internationally, even though Jang (2006) and Shin (2009) criticize their historical dependence on the government. According to Jang (2006), in contrast to the dependent growth of the agriculture cooperative, credit unions started to appear voluntarily in the 1960s. In another case of voluntary social organizations, famous consumer cooperatives such as Hansalim emerged in the 1980s, and these bodies made efforts to

shape nationwide unions in the 1990s. Civic movements that had previously focused on opposing dictatorship had, by the late 1980s, become a significant foundation for the evolution of a social enterprise movement. The scholar Lew regards Saemaul Undong, which began as an integrated development program in South Korea in the 1970s, as a successful social innovation movement that sought to develop deprived rural regions (Lew, 2012). According to Lew, Saemaul Undong was a government-led investment that addressed social problems innovatively. Considering the substantial involvement of the Korean government in promoting current social enterprises, we can hardly deny that Saemaul Undong forms an influential historical backdrop to the contemporary social enterprise initiative.

In spite of previous social innovation movement influencing the emergence of social enterprise, according to Bidet and Eum (2011), the clear concept of social enterprise was first introduced into Korean civil movement activities in the early 1990s. The emergence of a social enterprise movement in Korea can be attributed to efforts to address unemployment through constructing new job opportunities in the social economy (Defourny and Kim, 2011; Park, 2008). The financial crisis of 1997 in Korea deprived many people of jobs, and they faced serious situations threatening their basic living conditions. The vulnerability of both the labour market and the social safety net in the country was revealed in the face of the threatening crisis (Bidet, 2008). The Korean Government introduced the PWP, and the SSP connected with the Act on National Basic Livelihood Security (NBLS) enacted in 1999, to address the large-scale

unemployment that followed the financial crisis of 1997 (Defourny and Kim, 2011; Kim, 2008).

The PWP represented a policy response to the large scale of unpredicted joblessness and socio-economic polarisation, and it created temporary jobs for the unemployed from 1998 on (Park, 2008; Park and Wilding, 2012). According to Park (2008), the government modified the policy to entitle private associations to join the program as partnership organizations. Among social activists in the private organizations who joined the program, recognition that a social enterprise scheme was needed started to spread, because jobs created by the PWP were provisional, and usually offered menial positions that were destined to terminate when public financial support ceased (Kim, 2008).

In 1999, the Daejung Kim administration enacted the NBLS Act that is seen as a critical turning point in unemployment policy (Park, 2008) and as the most impressive of the social welfare reform measurements adopted to address social issues following the financial crisis (Kwon and Holliday, 2007). As a comprehensive work integration scheme, NBLS was constructed to associate welfare allowances with job opportunities for jobless people and poor families (Park, 2008). In the NBLS scheme, families earning under the minimum cost of living, which is defined in terms of their family size, are entitled to receive an allowance regardless of age or working ability (Bidet, 2008; Bidet and Eum, 2011; Kwon and Holliday, 2007).

At the same time, the NBLS introduced the SSP into which previous main job creation programs under the PWP were integrated (S.-Y. Kim, 2009). According to the SSP, recipients of NBLS who are able to work must participate in a work integration program in order to obtain the full benefit (Bidet and Eum, 2011; Kwon and Holliday, 2007). Projects that are part of the SSP are conducted by both public and civil society organizations, such as local self-support centres, which are civil society groups that have existed since the middle of the 1970s (Bidet and Eum, 2011; Park and Wilding, 2012). Even though Park and Wilding (2012) insist that the local self-support centres - self-support community centres in these authors' words - were the origination of current Korean social enterprise, it is more accurate to say, as Bidet (2008) argues, that self-support enterprises nurtured by the centres could be placed in the wider concept of social enterprise. In the same vein, McCabe and Hahn (2006) consider the self-support enterprises as social enterprises for promoting self-sufficiency.

In 2003, the Korean Government began the SWP to address long-term joblessness and a shortage of social welfare service provisions (Park, 2008). Even though the unemployment rate dropped to 3.3% in 2002 from 8.5% at the beginning of 1999, with the fast economic recovery (Bidet, 2008; Bidet and Eum, 2011), Korea experienced a shock in its labour market, with a growth in joblessness, in 2003 (Kim, 2008). According to Kim (2008), the total number of employees decreased, in spite of positive economic growth of 2% in the year. At the same time, anxiety was rising, as jobs that were non-regular and non-salaried offering lower pay and no job security

increased once the financial crisis was over. In addition, the NBLIS was limited in the protection it offered the poor, as it covered only 3% of the total population, while the poverty rate was 8.1% in 1999 (S.-Y. Kim, 2009). In this context, the SWP started to create social service provision jobs for the poor who were not beneficiaries of the NBLIS (Kim, 2008). The job creation scheme focused on the social service market as an area that had great potential to create employment in Korea. In 2003, 12.6% of the total employees in the country worked in the social service sector, while the average for OECD countries that year was 21.7% (Kim, 2008).

In 2006, the institutionalization of social enterprises was accomplished with the enactment of the SEPA. This legalisation reflected long-standing concerns about job creation and social service provision programs. A number of scholars, practitioners and civil servants had worried that the SWP, which was not basically different from the PWP, had simply created temporary and menial positions that would end once there was no more government funding (Kim, 2008; S.-Y. Kim, 2009; Park, 2008; Park and Wilding, 2012). Limited charitable activities from the private sector and relatively unsuccessful welfare provisions to alleviate short-term poverty made social welfare institutions seek more innovative ways to address large-scale unemployment (Defourny and Kim, 2011). To overcome the difficulty, the government modified the SWP through the institutionalization of social enterprises. The key strategy revealed in the legislation was to set up more ‘market-oriented’ and more ‘financially sustainable’ organizations for job creation (Park, 2008; Park and Wilding, 2012).

Table 2-1) Evolution of social enterprise policy

	1998-2002	2003-2006	2007-2010
Public Policy	Public Work Program	Social Workplace Program	Social Enterprise Initiative
	National Basic Livelihood Security (Self-Support Program)		
Policy Background	Unemployment and poverty caused by financial crisis of 1997	Jobless growth and shortage of social welfare provision	Instability of jobs created by Social Workplace Program
Beneficiaries	NBLS recipients	Expanded to general jobless population	General jobless population

Source: Modification of Park and Wilding (2012, p. 239)'s article

### 2.2.2 Definition, Type and Size

According to the SEPA, in effect from 2007, a social enterprise is defined as:

‘A business or organization that mainly pursue social purposes, such as providing jobs or social services to the disadvantaged, carrying out business activities in producing and trading goods and services’ (*Social Enterprise Promotion Act*, 2010 Article 2).



Organizations applying to become social enterprises must meet several detailed requirements. These are the basic pursuit of a social purpose, a participatory decision-making process, profit reinvestment in the public goal, continuous trading activities employing waged workers, and the status of a legal organization such as a non-profit organization, company, or cooperative (Social Enterprise Promotion Act, 2010). If the Social Enterprise Promotion Committee decides that certain organizations that have applied for recognition satisfy the requirements, then the organizations are recognized as certified social enterprises.

The Act describes five types of social enterprise according to their main purpose: social service provision type, job creation type, community contribution type, mixed type, and miscellaneous type. Besides the legal categories, there are arguments that, in the Korean context, various types of social enterprises have come into existence when a theoretical and functional definition has been adopted (Bidet and Eum, 2011; Park and Wilding, 2012). In reality, several scholars consider non-profits, self-support enterprises, cooperatives and community enterprises as social enterprises, even though they are not legally certified as social enterprises.

Since the implementation of the SEPA, the number of social enterprises has increased very fast. According to the Social Enterprise Promotion Plan (2011), as of 2011, the number of certified social enterprises was 532, employing 13,636 staff, which was a big increase from 51 social enterprises and 2,539 employees in 2007, the first year of

institutionalization. The size of the social enterprise sector is growing, and it reached more than 1,000 certified social companies in 2014 (Korean Social Enterprise Promotion Agency, 2014).

### **2.2.3 Legal Environment and Support Structure**

In this section only a brief explanation of the legal environment and government support will be given, since Chapter 5 will give more details. The SEPA is not intended to give legal status to organizations such as social cooperative schemes in Italy (Lee, 2011), and the Act confers the right to use the social enterprise brand only on organizations that qualify as social enterprises. These organizations are the only ones that can themselves call social enterprises, and other organizations cannot use the title (*Social Enterprise Promotion Act*, 2010 Article 19). The reasons why the Act has chosen a certification structure are to confer credibility on social enterprises, to promote them fast with intensive public support, and to prevent the emergence of inappropriate social enterprises (H.-W. Kim, 2011a; Lee, 2009).

Besides its concept and certification system, the Act has several provisions to create legal grounds for central and local governments' support for social enterprise promotion. The Korean Government has been very energetic in the introduction and encouragement of social enterprises (Park and Wilding, 2012). Such a government-led initiative is evaluated as having carried out effectively the creation of jobs and the

provision of social services to the disadvantaged (Lee, 2011). Based on the Act, governments can lend or grant money for building facilities or payroll costs. In addition, both national and local governments have to find ways to increase their purchase of goods and services produced or provided by social enterprises. Moreover, support includes not only tax benefits, such as help with corporate and residence tax, but also social insurance subsidies that can be used by companies to pay premiums for four key types of insurance: National Employment Insurance, National Industrial Accident Compensation Insurance, National Health Insurance and the National Pension Scheme (*Social Enterprise Promotion Act*, 2010 Article 11-13).

The Act in its amended 2010 form included several particularly important policies. First of all, it gave the central government legal grounds to establish a social-enterprise-supporting organization. In accordance with the amendment, the KOSEA was founded in December 2010 (*Social Enterprise Promotion Act*, 2012 Article 20). This public agency, fully funded by government, is expected to carry out a highly significant role in promoting innovative social entrepreneurs, finding creative business models, monitoring and evaluating social enterprise activities, and building social enterprise support networks. Moreover, to boost the profile of social enterprise amongst the population, a Day of Social Enterprise, 1<sup>st</sup> July, was designated by the Act (*Social Enterprise Promotion Act*, 2012 Article 16).

## **2.3 Social Enterprise in the Western Countries**

### **2.3.1 The UK**

#### **Historical Context**

UK social enterprises firmly embedded in the third sector, in other words, in the social economy, are often said to have derived both from the traditional voluntary or philanthropic organizations that had their first origins in the 17<sup>th</sup> century and from mutual organizations, including building societies, cooperatives and housing associations (Aiken, 2006a; Taylor, 2004).

According to Kendall et al. (1993), the formalization of voluntary activity in the country was enacted in 1601 through the Charitable Uses Act which was intended to deal with social and economic problems related to the poor. While these problems, which deepened with industrialization and urbanisation in the 18<sup>th</sup> and 19<sup>th</sup> centuries, required active public involvement, the State was reluctant or unable to address them (Kendall et al., 1993). In this situation, charities using resources derived from voluntary or philanthropic contributions took a significant role in addressing failures in the market and state (Defourny and Nyssens, 2010).

Mutuality has an equal significance to that of the voluntary tradition in terms of the social economy of the UK. According to Kendall et al. (1993) mutual aid for the

labouring classes began in the 18<sup>th</sup> century. The Rochdale cooperative was created in 1844 to address not only a market failure in supplying enough high quality goods but also a state failure in regulating the retail sector (Aiken, 2006a). Kendall et al. (1993) explain that the organization of friendly societies that held workers' contingency funds to enable them to respond to illness, old age and funeral costs was recognized by the Friendly Societies' Act introduced by Rose in 1793. Trade unions, consumer cooperatives, and building and housing societies were recognized by the Royal Commission of 1871-4.

Even though the role of the third sector in social welfare provision gradually increased under the welfare state and Conservative governments in the 20<sup>th</sup> century, a major opportunity for social enterprise movements was created by a New Labour administration in the 1990s. The New Labour government, which showed itself ideologically dedicated to a 'Third Way', recognized social enterprises as essential intermediary organizations to reduce social problems such as unemployment, poverty, deprived communities and social exclusion (Mawson, 2010). The term 'social enterprise' appeared first in a government document, *Enterprise and Social Exclusion*, published by HM Treasury in 1999 (Bland, 2010). The social enterprise drive was initiated by a new body, Social Enterprise London (SEL), created by two cooperative development agencies in 1998, and the description of a social enterprise used by HM Treasury mainly depended on SEL's documents (Teasdale, 2012). One of the most significant government strategy plans, *A Strategy for Success* was announced in 2002.

The CIC legal status, specifically designed for social enterprises through the Companies Act of 2004, and the Community Interest Companies Regulations of 2005, were then created. With its ‘Big Society’ discourse, the Conservative-led Coalition Government that took office in 2010 also emphasized social enterprises and voluntary organizations as suppliers of social services that would improve social inclusion and repair a ‘ruined’ society (Alcock, 2010; Lyon and Sepulveda, 2009; Teasdale et al., 2012).

### **Definition, Type and Size**

As in other countries, social enterprise in the UK is a fluid and contested concept reflecting variable actors, history, politics and culture (Kerlin, 2006; Teasdale, 2012; Teasdale et al., 2013). The Department for Trade and Industry (DTI) of the UK Government, however, defines social enterprises officially with a pragmatic approach that includes various legal and organizational models (Bland, 2010; Teasdale, 2012).

A social enterprise is a business with primarily social objectives, whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners. (Department for Trade and Industry (DTI), 2002, p. 8)

The government has kept the definition deliberately loose to allow the inclusion of various types of organization that claim to be social enterprises (Lyon and Sepulveda,

2009; Teasdale, 2012; Teasdale et al., 2013). According to this open definition, even for-profit companies that have some limited social aims can be considered social enterprises (Teasdale, 2012). Spear (2001) suggests that social enterprises include cooperatives, social firms, mutual organizations, voluntary trading organizations, intermediate labour market organizations and community businesses. Aiken (2006b) adds local exchange trading systems (LETS), development trusts, employee-owned businesses and the trading arms of charities to the social enterprise category.

It is impossible to identify precisely how many social enterprises operate in the UK, even though a lot of research studies refer to more than 60,000 social organizations in the country (Bland, 2010; Drencheva and Stephan, 2014; Teasdale et al., 2013). The phenomenal increase in social enterprises, from 5,300 in 2003 to 62,000 in 2007, is criticized as a 'growth myth' by Teasdale et al. (2013). A radical growth that can be brought about by political adjustment of the data collection method used has been employed in order to justify government policy (Drencheva and Stephan, 2014; Teasdale et al., 2013). According to recent statistics commissioned by the Cabinet Office, the number of social enterprises in 2012 was between 57,400 and 82,700, which represented 24% of the total number of small and medium sized enterprises in the country (Cabinet Office and BMG Research, 2013). The research explains that social enterprises employed a total of 723,200 employees, creating a total turnover of £46,600 million in the same period.

## **Legal Environment and Support Structure**

In defining social enterprises in the UK a particular regulatory form is not decisive (Lyon and Sepulveda, 2009), and they can have various legal structures, such as charity, trust, industrial and provident society, community benefit society, company limited by guarantee, company limited by shares, and CIC (Peattie and Morley, 2007; Smith and Teasdale, 2012; Spear, 2001). Among possible legal forms, the new CIC was specifically constructed for establishing social enterprises in 2005 (Bland, 2010; Peattie and Morley, 2007). According to Nicholls (2010a), the UK government intended to offer greater flexibility and more options to the social enterprise area through the new legal form of CIC. CICs must pass the Community Interest Test<sup>1</sup>, deliver an annual CIC report to the Registrar of Companies, and follow both ‘asset lock’<sup>2</sup> and ‘dividend cap’<sup>3</sup> regulations (Department for Business Innovation and Skills,

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<sup>1</sup> The main purpose of CICs is community benefit rather than personal benefit so CICs must show the Regulator evidence that they are satisfying the community interest test ‘Whether a reasonable person might consider that its activities are carried on for the benefit of the community’ (Department for Business Innovation and Skills, 2013, p. 10)..

<sup>2</sup> CICs must retain their assets for the community benefit and cannot distribute them to stakeholders (Nicholls, 2010a). The assets of CICs can be transferred to specified asset-locked organizations such as another CIC, a charity or a permitted industrial provident society (Department for Business Innovation and Skills, 2013).

<sup>3</sup> The maximum amount of aggregate dividend paid by a CIC cannot exceed 35% of profits available for dividends. The maximum dividend per share issued on 6<sup>th</sup> April 2010 and thereafter cannot go beyond 20% of the paid-up value of a share issued on 6<sup>th</sup> April 2010 and thereafter (Department for Business Innovation and Skills, 2013).



2013). CICs can not only issue shares but also redistribute profits to shareholders provided they abide by the dividend cap. Following the first incorporation of a CIC in 2005, by March 2012, more than 6,000 CICs had been registered (The Office of the Regulator of Community Interest Companies, 2013). Just over 20% of CICs, 1,626 organizations, were dissolved in the country in the same period of time.

In terms of government involvement, since the 1997 election social enterprise has been a critical policy emphasis in the United Kingdom (Nicholls, 2010a). Regarding the UK's policy context, *Enterprise and Social Exclusion* published by HM Treasury's Policy Action Team in 1999 employed the term 'social enterprise' for the first time (Bland, 2010). The report stressed that social enterprises had a high potential for addressing the social problems of deprived communities (HM Treasury, 1999).

The Social Enterprise Unit (SEU), which had as its purpose the development of an energetic and increasing social enterprise sector, was created in the DTI in 2001. In June 2006, the remit for this was taken over by the Office of the Third Sector (OTS), which since May 2010 has been called the Office for Civil Society (OCS) (Bland, 2010).

*Social Enterprise: A Strategy for Success* was published by the SEU in 2002. The unit identified the main challenges to the development of the social enterprise sector and set out specific actions to overcome the barriers. The main challenges identified were people's poor understanding of the potential and value of social enterprises, and

difficulties in making use of the finance and funding available (Department for Trade and Industry (DTI), 2002; Nicholls, 2010a). The report aimed to achieve three major outcomes: 'Creating an enabling environment, making social enterprises better business, and establishing the value of social enterprises' (Department for Trade and Industry (DTI), 2002, p. 8). To accomplish these outcomes it emphasized various policy points such as public procurement, quality business consulting and training, increasing the capital advanced by Community Development Finance, and establishing a detailed data base of social enterprises (Department for Trade and Industry (DTI), 2002).

The OTS, formed by merging the SEU of the DTI and a Voluntary Sector Team from the Home Office, announced *the Social Enterprise Action Plan: Scaling New Heights*, in 2006. To support social enterprise success, it focused on four themes: forming a culture for social enterprises, supplying the right information and advice to social enterprises, supporting accessible and appropriate financial opportunities, and enabling cooperation with government.

Nicholls (2010a) insists that the UK government has constructed the most developed social enterprise policy in the world, from the creation of a new legal form of CIC to initiatives in social finance, consulting, capability building and research. The country is committed to investing about £732 million for the success of the social enterprise sector. In addition, to support significant research into social enterprise, the OTS

provided £5 million of funding for the Third Sector Research Centre, jointly run by the Universities of Birmingham and Southampton, from 2008 to 2013 (Nicholls, 2010a; The Third Sector Research Centre, 2014).

### **Influence on Korean Social Enterprises**

The Korean Government enacted a law on social enterprises drawing on the CIC regulation of the UK and the Social Cooperative Act of Italy (Lee, 2011). Korean social enterprises based on a company limited by shares can legally distribute limited profits to shareholders like CICs in the UK.

Similarly to the UK's *A Strategy for Success*, the Korean Government launched master plans to develop the social enterprise sector. The Master Plan for Social Enterprise Promotion (2008) and the Social Enterprise Promotion Plan (2011) in Korea can be identified as comprehensive policy packages. Korean plans for social enterprise promotion emphasize support for public relations (PR), access to financial opportunity, public procurement, and participation in social service delivery like the activities outlined in *A Strategy for Success*.

Strategic agency organizations for social enterprises were created in Korea in a similar way as the SEL and the Social Enterprise Coalition (SEC) in the UK. The Korean Social Enterprise Conference (KSEC), which has 16 local sub organizations, is also supporting social enterprises. Their influence, however is evaluated as relatively weak

compared to those of other countries (Lee, 2011). Another important agency is the KOSEA, even though the agency was constructed by government in 2010. Although the agency can be categorized as a public institution, it is carrying out similar tasks to the SEL and SEC to support social enterprises. More details about the agency will be given in Chapter 5.

### **2.3.2 Italy**

#### **Historical Context**

The social cooperative in Italy as well as the CIC in the UK is evaluated to have had a significant influence on the enactment of the SEPA in Korea in 2006 (Lee, 2011). To examine social enterprise in Italy, both the welfare system and the third sector in the country need to be taken into account (Borzaga and Santuari, 2004).

Before the 18<sup>th</sup> century in the country, social welfare was the responsibility of family and private not-for-profit bodies, and the role of the state and market was very limited (Borzaga, 2004). At that period, according to Borzaga and Santuari (2004), third sector organizations providing health care, elderly care and education developed freely. Among the not-for-profit organizations, charities (the Opere Pie), most of which were controlled by Catholic Church, were the most prominent in supplying social and health services to the poor (Barbetta, 1997; Borzaga, 2004). To insure members against

illness and unemployment a great many mutual benefit societies were operated as well (Borzaga, 2004). Additionally, cooperatives, including credit and consumer cooperatives, were common, with the aim, for example, of encouraging investment in agriculture or protecting consumers' interests (Borzaga, 2004).

Non-profit organizations started to decrease dramatically in the latter half of the 19<sup>th</sup> century. Barbetta (1997) and Ranci (2001) explain the reduction as being caused by the beginning of the nation-state, unified in 1861, with legal attacks against Catholic institutions. Borzaga (2004), and Borzaga and Santuari (2004) suggest that the scaling down of the third sector can be attributed to the influence of the French Revolution, which considered intermediaries like charities as getting in the way of direct contact between the state and the people. The Italian government enacted a law restructuring health care services in 1888 and altered the private and independent *Opere Pie* into public organizations in 1890 (Borzaga, 2004). The development of the welfare state and the retrenchment of the third sector in Italy were accelerated during the First and the Second World Wars.

As in other European countries, in Italy, by the end of the 1970s, the welfare system was showing its limitations and weaknesses in addressing newly emerging heterogeneous social problems such as long-term unemployment, the growing numbers of old people, homelessness, drug addiction and immigration (Borzaga and Galera, 2012; Fazzi, 1996). The Italian welfare model, emphasizing money

distribution rather than social service provision, could not meet the increasing demand for social services because of the fiscal crisis of the welfare state in the 1970s (Barbetta, 1997; Borzaga, 2004). At that time volunteers and workers who were not satisfied with the poor social services provided by the state responded to social problems by constructing cooperatives (Borzaga and Galera, 2012). They innovatively called the organizations ‘social solidarity cooperatives’ (Borzaga, 2004; Borzaga and Santuari, 2004). The new cooperatives were different from traditional ones in that the former operated for wider community interests while the latter basically worked for members’ interests (Borzaga, 2004; Borzaga and Galera, 2012). In 1991, the new cooperatives were legally recognized as social cooperatives with the enactment of the Act on Social Cooperatives, which has been considered the first legislation for social enterprises in the world (Kerlin, 2006). According to Borzaga and Santuari (2004), a social cooperative drawing on various legal forms addressing social problems best describes the characteristics of social enterprises in the Italian context.

### **Definition, Type and Size**

There had been no specific legal definition of social enterprise until the new law (Law 118/2005) and the legislative decree (Law 155/2006) on this organization type were enacted in 2005 and 2006. With these new laws, the country has officially conceptualized a definition of social enterprise. According to the laws, social enterprises are not-for-profit private organizations that are undertaking business

activities in order to produce social benefit goods and services (Fici, 2006; Galera and Borzaga, 2009). The official definition offers a legal category or brand to any eligible organization, rather than constituting a completely new type of legal form or organization. Theoretically, cooperatives, not-for profit organizations including associations and foundations, and investor-owned companies can become social enterprises. For this reason, the legal approach can be considered a general law on social enterprise (Fici, 2006).

According to Borzaga and Santuari (2004), the social cooperative form created by legislation in 1991 (Law 381) is the clearest type of social enterprise. The authors, however, explain that the social enterprise sector includes several types of organization. A certain number of voluntary organizations, associations, traditional cooperatives and charities can be categorized into this sector, even though those organizations do not have all the characteristics of social enterprises. Nevertheless, Golubović and Hartay (2012) indicate that associations, foundations and social cooperatives are generally accepted as institutional types of social enterprise in Italy.

Social cooperatives in Italy have shown exponential development since the approval of Law 381 (Thomas, 2004) so they have taken a key role in the country's welfare structure (Borzaga and Galera, 2012). According to Borzaga and Galera (2012), since the legislation, there has been a growth rate in social cooperative of from 10% to 20% each year. Their research estimates that the number of such organizations increased to

12,428 in 2008 from about 2,000 in 1991. Social cooperatives hired about 350,000 workers, 35,000 volunteers and had 4.5 million users in 2008.

### **Legal Environment and Support Structures**

In Italy, the term social enterprise started to be used with the legal recognition of social cooperatives in 1991 (Borzaga and Santuari, 2004). The significant growth of social cooperatives caused more frequent use of the word social enterprise even though there was no legal concept or definition in the country before the Act on Social Enterprises in 2005. Defourney and Nyssens (2008) suggest that the central type of social enterprise has been represented by social cooperatives to date.

According to Law 381, which deals with social cooperatives, the objective of such organizations is to increase community interests and social integration (Borzaga and Galera, 2012). The Act separates two types of social cooperatives: A-type and B-type. A-type organizations supply caring activities such as social, welfare and educational services, to various disadvantaged groups from the elderly and minors to the disabled, the homeless and immigrants (Galera and Borzaga, 2009; Thomas, 2004). B-type organizations have the purpose of providing jobs to the disadvantaged, so at least 30% of their total number of staff must be disadvantaged (Galera and Borzaga, 2009).

With regard to membership, social cooperatives have various groups of stakeholders: lending or funding members, beneficiary/user members, volunteer members, other



members and public organizations (Mancino and Thomas, 2005). Therefore, it is said that multi-stakeholder dynamics is being encouraged by the social cooperative model for the first time in the social enterprise sector (Thomas, 2004). Borzaga and Galera (2012) list the multi-stakeholder structure in the key elements for the success of Italian social enterprises.

Law 381 regulates the distribution of profits so enterprises cannot offer stakeholders more than 80% of the total profits (Barbetta, 1997; Borzaga and Santuari, 2004). The rate of dividends for each share cannot be higher than the legally defined interest rate. Residual assets of dissolved organizations must be spent on a public aim.

In 2005, Italian legislators created a more general legal structure for social enterprises: Law 118. The new law and the legislative decree of 2006, Law 155, became a landmark in Italian third sector history (Defourny and Nyssens, 2008). According to Law 155, organizations which wanted to be classified as social enterprises must be owned privately, carry out business activities to produce social utility goods and services, and operate for the community interest, and be not-for-profit (Fici, 2006).

The legislative decree describes specific fields where social enterprises produce social utility goods and services. On the one hand the fields include welfare, health, education, environmental protection, social tourism, research activities and delivery of cultural services and so on. On the other hand, business activities aimed at work integration can be considered as producing social utility irrespective of specific

business fields (Fici, 2006; Galera and Borzaga, 2009).

Non-profit regulation by Law 155 was introduced to prevent for-profit organizations from controlling social enterprises (Fici, 2006). According to the regulation, social enterprises cannot distribute profits or assets to directors, shareholders or employees. Profits or assets have to be invested in core business or asset development. In addition, Italian social enterprise law describes participation by stakeholders, employees and customers, as one of the general principles of social enterprise regulation (Fici, 2006; Lee, 2011).

Borzaga and Galera (2012) focused on public policy as a key factor in the impressive development of social enterprises in Italy. The number of cooperatives has increased dramatically since Law 381 was enacted in 1991. The law clearly defines an analogous mission and the possibility of cooperation between public organizations and social cooperatives. In addition to the legal framework, preferential purchasing by the public sector, especially municipalities, has been a critical factor in the development of social enterprises (Borzaga and Galera, 2012). The Law of 1991 introduced the practice of preferential procurement of goods and services produced by type-A social cooperatives (Golubović and Hartay, 2012). The Italian public sector has applied specific tax breaks and benefits for social cooperatives. These organizations are exempted by Law 381 from tax that may be incurred on a compulsory reserve fund (Borzaga and Galera, 2012). Moreover, exemption from VAT (value added tax), or a reduced rate of 4%, is

applied to services supplied by social cooperatives. In order to support social cooperatives of work integration, employees in the process of integrating within type-B organizations are exempted from paying social insurance contributions (Borzaga and Galera, 2012; Seong, 2013). With regard to public institutional support, the Agency for the Third Sector is charged with proposing legislation for the third sector and monitoring related data for the country (Golubović and Hartay, 2012). Social enterprises in Italy have a responsibility to provide an annual report with a balance sheet and a social mission report to the Ministry of Labour and Social Policies. Before the organizations submit the latter, they should consult the Agency for the Third Sector.

In the Italian social enterprise context, consortia are regarded as the most common supporting structure by researchers. A consortium can be conceptualized as a network of enterprises that is constructed for carrying out various activities to support the interests of member organizations (Daniele et al., 2009). As one of the significant integration types of social cooperative in the country (Borzaga and Galera, 2012), consortia provide various services such as administrative consultancy, training, financial supports, communication with public organizations, help in participate public procurement and so on (Borzaga and Galera, 2012; Thomas, 2004). Daniele et al. (2009) explain the usefulness of consortia, referring to the fact that social cooperatives in consortia show a better financial and employment result than organizations that are not members of networks. The number of consortia has increased very fast, reaching 284 in 2005, which means a 44% growth since 2001.

## **Influence on Korean Social Enterprises**

Reflecting Law 381 in Italy, the SEPA in Korea divides social enterprises into five types. Among the types, the social service provision and the job creation types are the main categories and these relate to A-type and B-type in Italian social cooperatives.

Just as in Law 118 of 2005 in Italy, according to the Korean law, certified social enterprises do not obtain legal status. Legal organizations categorised according to related Acts, however, can be certified as social enterprises, and these certified organizations can use the title of social enterprise, maintaining their initial legal status.

As in the Italian social enterprise law, the SEPA in Korea requires social enterprises to construct a participatory decision-making process in which employees and customers join. In addition, certified social enterprises in Korea should submit an annual report to government like Italian social enterprises do.

### **2.3.3 The USA**

#### **Historical Context**

A useful approach to conceptualizing social enterprises in the USA is to define them as commercial activities undertaken by non-profit organizations to support the accomplishment of their mission (Defourny and Nyssens, 2010). In relation to this, it

is necessary to trace the development of the non-profit sector to understand the emergence of social enterprises in the country.

The non-profit sector in the USA can be considered a highly developed and distinctive arrangement (Salamon, 1997). On the one hand the existence of a prominent and independent non-profit sector philosophically originates from traditional American values such as a culture of individualism, opposition to centralized rule, and the separation of religion and politics. In terms of a pragmatic view, on the other hand, unlike in European countries, there existed a society before the existence of the state in the USA, so people in the country must have created structures for the provision of essential social services that were supplied by the state in other societies.

The practice of non-profit organizations selecting commercial activities to support their mission can be traced back to the birth of the country, when groups interested in promoting the concept of community held bazaars and traded home-made products to supplement donations (Kerlin, 2006). However, not until the 1970s did the concept of a sector motivated by charitable purposes and depending on voluntary backing appear (Young, 2003). As Alter (2002) explains, the term social enterprise was first coined in the 1970s by non-profit organizations which identified their business activities as the creation of job opportunities for the disadvantaged. Non-profits expanded dramatically when the Great Society programs of the Kennedy-Johnson administration started in the 1960s (Young, 2003). At that time, the Federal Government spent billions of dollars in

addressing social issues such as poverty, health care and education through non-profit organizations operating in these areas rather than creating additional bureaucracy (Kerlin, 2006). From that time on, what had been a calm and steady sector started to become more dynamic, thanks to funds from government which chose non-profit bodies as agents for social service delivery (Salamon, 1995).

The non-profit sector in the country, however, faced federal funding cutbacks caused by the economic downturn in the late 1970s and the emergence of Reagan's highly conservative administration in the 1980s (Young, 2003). Between 1977 and 1982, federal spending on education was reduced by 33%, and federal social welfare expenditure, adjusted for inflation, decreased by nearly 30% (Salamon, 1993). According to Eikenberry and Kluver (2004) non-profit organizations outside the healthcare field lost \$38 billion revenue from the state between 1980 and 1994 as cutbacks for federal funding on social welfare initiatives decided on in the late 1970s and 1980s took effect. Contrary to hopeful expectations that private donations would offset the reduction in public funding of non-profit organizations, the proportion of private contributions in non-profits' total annual income decreased from 26% in 1977 to 18% in 1992 (Eikenberry and Kluver, 2004).

As social welfare programs funded by federal government shrank radically, the fast growth of the non-profit sector that had been taking place prior to the cutbacks was interrupted, and non-profit bodies had to find new financial resources besides public

funding and voluntary donations (Young, 2003). Experiencing a decline in resources from both public and private sectors, non-profits started to employ social enterprise activity as a way of addressing their financial shortages (Eikenberry and Kluver, 2004; Kerlin, 2006; Young, 2003). Thus the non-profit sector grew financially in the 1980s and 1990s in spite of reduced funding from the state. According to Salamon (1993), the revenues of the non-profit sector increased by 79% in inflation-adjusted terms between 1977 and 1989.

The most relevant reason for the phenomenon was that the sector generated commercial revenues such as fees for services and other profits from sales (Eikenberry and Kluver, 2004; Salamon, 1993). Even though the tradition of using commercial activities by non-profit organizations had a long history in the US context, these activities started to rise in the 1970s (Backman and Smith, 2000). According to a survey conducted by Crimmins and Kiel in the 1980s, over 60% of responding non-profits earned income from business activities and 69% of these activities had been taken on since 1970 (Backman and Smith, 2000). And the commercialization (Backman and Smith, 2000) and marketization (Eikenberry and Kluver, 2004) of non-profits continued to strengthen in the country (Kerlin, 2006). For example, the proportion of the revenue of non-profits generated from commercial activities was 48.1% in 1982, but it rose to 57.6% in 2002 (Kerlin, 2006, p. 252). In the meantime, donations by the private sector increased only from 19.9% to 22.2%, and federal contributions from 17.0% to 17.2%. As part of this development, the term social

enterprise began to have a wider meaning, which included nearly all kinds of activities involving profit generation for the purpose of social aims (Kerlin, 2006). This historical context explains why earned-income strategy in the social enterprise domain is emphasized in American culture. The earned-income strategy will be more explored in Chapter 7.

### **Concept, Types and Size**

As indicated by Young (2001) there is no one clear concept of social enterprise in the US context. Three related concepts of social enterprise, social entrepreneurs, and social entrepreneurship developed around 1993-1995 (Defourny and Nyssens, 2010); and even though there were some efforts to integrate the three terms and to fix on one precise concept, the various approaches and definitions continued.

In the US landscape, the concept of social enterprise is more extensive and profit oriented than definitions in European countries and Korea. Kerlin (2006) delineates the conceptual characteristics for this country, referring to different uses of the term in scholarly and practical circles. According to her, in American academia, the scope of social enterprises is thought to include for-profit organizations involved in contributing to social benefits and hybrids mediating financial and social goals, as well as non-profit bodies that generate commercial profits to be spent for social purposes. In the practical field, however, the term is usually believed to have the rather limited meaning of earned revenue activities or the approach of not-for-profit organizations to



spending their revenue on social goals.

Defourny and Nyssens (2010) introduced the earned income and social innovation approaches explaining the American conceptual debate on social enterprise. On the one hand, in the former approach, a social enterprise is defined as a business seeking to accomplish a social purpose through utilizing an earned income strategy (Lyons et al., 2010). In that school of thought, all revenues derived from commercial activities, in other words income earned by non-profits, have something to do with the organizations' mission, whether that is direct or indirect (Lyons et al., 2010). The broad and commercial profits-oriented definition was adopted by diverse organizations including for-profit firms (Defourny and Nyssens, 2010). On the other hand, in the social innovation school of thought, the Schumpeterian view of a social entrepreneur as a social innovator is emphasized. In that perspective, social entrepreneurs are change creators using innovative combinations of various new approaches such as new services, products, organizational forms, production factors and methods, and markets.

The possible organizational types that social enterprises can select in the US landscape can be categorized in various ways, according to the different conceptualizations of social enterprise. On the one hand, if the broadest concept of social enterprise is selected, corporate philanthropies, social purpose organizations and hybrids are possible options for social enterprises (Young, 2001). The corporate philanthropy type of for-profit enterprise mainly pursues profit maximization, and social contributions

can be taken as strategic philanthropy that contributes to economic growth. The second type of social enterprise, the social purpose organization, which fits with non-profit organizations, is driven by social purposes rather than business profits, which are regarded as means to achieve missions. The hybrids have the dual purpose of generating profits for their stakeholders and contributing to broader community interests. Theoretically, for the purpose of achieving social targets such as social justice or environment protection, hybrids have the capacity for profit generation. When the concept of social enterprise is limited to non-profit organizations, on the other hand, possible eligible forms are unincorporated associations, corporations and trusts, and a body of properties devoted to a specific aim (Salamon, 1997).

When it comes to the amount of social enterprise in the USA, it is difficult to estimate exactly the volume of the sector given the conceptual disagreement and ambiguity. To date, one of the relevant ways to measure the amount is to guess it from the number of non-profits that are exempt from federal income tax. According to Blackwood et al. (2012), the number of non-profits that were registered as exempt with the Internal Revenue Service (IRS) was about 1.6 million in 2010, a 24% growth from 2000. The contribution of the sector to the US economy is about \$804.8 billion, representing 5.5% of the country's GDP in 2010 (Blackwood et al., 2012). In 2010, non-profits employed 13.7 million, making up 10.6% of the US workforce (The Chronicle of Philanthropy, 2012). This shows a growth in employment in the sector compared to the 11.7 million (8.8%) figure for 2000.

## **Legal Environment and Support Structure**

Contrary to other countries described in this chapter, the USA does not have a prominent support policy focused on social enterprise. Kerlin (2006) comments that the USA has not created any policy to accommodate the commercial activities that have grown in the non-profit sector. Instead, the development of non-profits involved in social enterprises in the country has been led by private sector organizations such as foundations and membership associations (Kerlin, 2006; Lee, 2009).

According to Salamon (1997), in the American setting, the non-profit sector is not guaranteed or defined by a single law. Instead, organizations in the sector are governed by diverse state and federal laws about incorporation and taxation. In terms of incorporation, as mentioned above, non-profits can take one of several legal forms: unincorporated association, corporation or trust.

Regarding taxation, all non-profit organizations which intend to be exempted from federal income tax must meet the legal requirements and apply to the IRS (Sherlock and Gravelle, 2009). Based on organizational purpose the Internal Revenue Code recognizes around 30 classes of organization that can be exempted from federal income tax (Salamon, 1997; Sherlock and Gravelle, 2009). These tax-exempt organizations can be separated into charitable organizations and member-serving organizations (Salamon, 1997). Even though both categories are exempted from taxes on their own income, organizations in the former group are only entitled to receive tax

deducted from donations by individuals and organizations. Salamon (1997, p. 15) puts ‘funding intermediaries, churches, social service providers and social welfare organizations into the charitable category, while business and professional organizations, social and fraternal organizations, mutual benefit and cooperatives and miscellaneous into the member-serving category’.

Since the 1980s, various private foundations such as the Kellogg Foundation, Rockefeller Foundation, Roberts Enterprise Development Fund, Goldman Sachs Foundations, Draper Richards Foundations, Skoll Foundation, and the Ashoka or Schwab Foundation have supported the development of social enterprise in the USA (Kerlin, 2006). They have contributed to the growth of social enterprises by carrying out the collection of related data, creating networks, supporting start-ups and operating education courses to nurture competent social entrepreneurs.

The Social Enterprise Alliance, a membership network of practitioners in the USA, was created from the merger of the National Gathering for Social Entrepreneurs and the Social Entrepreneurs Allied for Change (Sea-Change) in 2002 (Kerlin, 2006; Social Enterprise Alliance, 2014). The organization’s mission is to create maximum social value by supporting the success of social enterprises (Social Enterprise Alliance, 2014). To accomplish this mission the network serves more than 900 stakeholders, including social enterprises, funders, corporations, government officials and researchers, by supplying information, research and examples of best practice,

estimating the effects of social enterprise activities, cultivating social enterprise ecosystems, and building local and national level social enterprise communities (Social Enterprise Alliance, 2014).

### **Influence on Korean Social Enterprises**

The American market-orientated tradition is acknowledged by the Korean social enterprise policy. According to Park and Wilding (2012), participants in the task force for creating a social enterprise act in Korea preferred the market-oriented model to the European one. The fact that corporations based on commercial law can apply to be social enterprises indicates the result of these participants' focus on market orientation. In a government context, sustainability, which is one of the most frequently appearing policy goals, usually implies financial independence and success in the market rather than achieving social purposes.

## **2.4 Conclusion**

As explained in the previous sections, the pathway along which social enterprise emerges and develops varies according to each country's social, economic and cultural background (S.-Y. Kim, 2009). The Korean social enterprise framework has captured government interest as a matter of job creation policy since the late 1990s, when the

country was facing the Asian financial crisis.

In the process of identifying and accepting social enterprise as a policy tool, Korea has mainly looked to the social enterprise traditions of the UK, Italy and the USA. The fast growth of Korean social enterprise started with the provision of supporting policies based on the enactment of the SEPA in 2006 (Cho et al., 2011).

Therefore, as shown in table 2-2, the Korean social enterprise scheme reflects important foreign cases as well as the specific context of the country itself. Evolved from unemployment policy, however, social enterprise activities in Korea have been focusing on job creation for the underprivileged rather than social service provision, unlike in the three western countries in which social enterprises are carrying out social service provision as well as job creation.

Despite the different contexts and development of social enterprises in the different countries, social organizations in the three western countries have grown based on relatively strong traditions of civil society comparing to a Korean case. Against this background, social enterprises in the UK and Italy have developed with government support even though the degree varies. By contrast to these two countries, in the USA government support targeting social enterprises is rarely found. The development of social enterprise in the three countries can mainly be explained as voluntary and independent growth. Distinct from the UK, Italy and the USA, Korea did not possess a

strong civil basis where social enterprises could develop naturally. Considering the context, a government led movement might be a natural response to the need to deal with urgent social issues of joblessness and poverty immediately and effectively. For this reason, social enterprise development in the country can be characterized as a government-led initiative based on rigorous legal concepts and a certification scheme, and with various and intensive financial and non-financial types of support.

A number of scholars and practitioner, however, argue that the top-down approach and rigid social enterprise system must be modified to enable further development of the sector. Defourny (2001a) argues that social enterprise needs various and flexible meanings rather than a limited and rigid definition. In a similar vein, Lee (2011) points out that a government certification structure can hinder the social enterprise sector from voluntary and diverse growth. If consideration is given to these arguments, the social enterprise movement in Korea should find alternative ways to promote sustainable growth by turning to a private-led and more flexible approach.

Table 2-2) Social enterprises in four countries

	<b>Korea</b>	<b>The UK</b>	<b>Italy</b>	<b>The USA</b>
Base	Government involvement	Voluntary, Philanthropic organizations	Not-for-profit charity (the Opere Pie), Cooperatives	Non-profits
Focus	Job creation	Social welfare service provision Job creation	Social welfare service provision Job creation	Social welfare provision Job creation
Scope (example)	Certified social enterprises	Cooperatives, social firms, mutual organizations, trading voluntary organizations, intermediate labour market organizations, community businesses, and LETS	Social cooperatives, voluntary organizations, associations, traditional cooperatives, and charity	Corporate philanthropies, social purpose organizations and hybrids (Young, 2001)  Unincorporated associations, corporations and trusts (Salamon, 1997)
Size	532 employed 13,636 in 2011	About 60,000 employed 723,200 in 2013	About 12,400 employed 350,000 in 2008 (social cooperatives)	Non-profits: 1.6 million employed 13.7 million in 2010
Government	Strong	Medium	Medium	Weak
Legal Environment	Social Enterprise Promotion Act	CIC, Charitable Uses Act, Friendly Society legislation, and Company law	Law 381 on Social Cooperatives and Law 118 and 155 on Social Enterprises	State and federal laws on incorporation and tax
Influence on Korea		<ul style="list-style-type: none"> <li>▪ Market orientation</li> <li>▪ Limited profit distribution</li> <li>▪ Comprehensive strategy for social enterprise</li> </ul>	<ul style="list-style-type: none"> <li>▪ Social enterprise types</li> <li>▪ Offering not legal status but brand</li> <li>▪ Participation of stakeholders in decision-making</li> </ul>	<ul style="list-style-type: none"> <li>▪ Market orientation</li> <li>▪ Companies based on commercial law are eligible to be certified as social enterprises</li> </ul>



## **CHAPTER 3      THEORETICAL FRAMEWORK**

### **3.1 Introduction**

This chapter looks at the author's theoretical framework for examining the sustainability of Korean social enterprise, and at some of the theories and previous literature that supplied theoretical foundations for that framework. Before creating the theoretical tool, the concept of sustainability, the key object of the research, was explored first because it contains various meanings according to different contexts. Then, related literatures, including Giddens's structuration theory, Mellahi and Wilkinson's integrative framework for studying organizational failure, literature about factors influencing organizational sustainability and success, and social entrepreneurship were explored in the process of constructing the researcher's framework.

The researcher's theoretical framework, a comprehensive approach to the study of sustainability in Korean social enterprise that draws on Giddens's structuration theory, Mellahi and Wilkinson's (2004) integrative framework, and literature on the success factors of social enterprises, argues that the sustainability of Korean social enterprises is determined by both structural factors and agency factors. The structural factors are made up of the social economy, market type and government policy, while agency

factors include social entrepreneurs, employees, organizations and financial interests: and they follow Giddens's idea that the framework presumes a dynamic structure that can be created and transformed by the efforts of agents. In accordance with Mellahi and Wilkinson's approach, the theoretical tool supposes that organizational sustainability can be understood better when it is examined by integrated considerations of contextual and organizational perspective.

Regarding agency factors, the concept of social entrepreneurship will be examined in an extensive way, as there is no agreement on who social entrepreneurs are and what social entrepreneurship is, even though it is considered to take a critical role in determining organizational sustainability.

## **3.2 Theoretical Basis**

### **3.2.1 Sustainability of Social Enterprise**

Before going deeper into the research into the sustainability of Korean social enterprise it is necessary to examine and clarify the meaning of sustainability in relation to social organizations. Although the term sustainability has been one of the most widely used catchwords in various fields (Scoones, 2007), establishing a clear meaning is intricate and puzzling, as there are as many as 50 definitions of it currently in use (Faber et al.,

2005). In addition, there has been only fragmented discussion of organizational sustainability in previous literature (Weerawardena et al., 2010). The meaning of the concept differs according to organizational type (traditional companies vs. social enterprises) as well as the context in which it is embedded in each country.

According to Wallace (2005), shared themes in the concept of sustainability used among social entrepreneurs in various businesses contain environmental, financial and social dimensions. In terms of the environmental dimension, the word sustainability was created by a German to describe the management of forests on a long term basis in the 1700s (Scoones, 2007). The concept, however, evolved into sustainable development and became famous following its use by the United Nations World Commission on Environment and Development in 1987. The Commission defined sustainable development as ‘development which meets the needs of the present without compromising the ability of future generations to meet their own needs’ (World Commission on Environment and Development, 1987, p. 8).

The meaning of sustainability is understood differently according to whether it is applied to non-profit or for-profit organizations. According to research into non-profit organizations (NPOs), this sustainability can basically be defined as the ability of an organization to survive in order to work for its customers, donors and society (Weerawardena et al., 2010). By contrast, the authors explain that the sustainability of traditional companies principally involves obtaining a competitive advantage that can

ensure a company's development through generating enough profits in the market.

The emphasis of the concept also varies according to different stakeholder groups using the term, and varies especially between policy planners and practitioners. For example, the UK government uses the term to focus on financial dimensions based on market competition (Wallace, 2005). Wallace argues that a dominant discourse on sustainability in the policy area is mainly inclined to focus on financial independence. However she explains that practitioners have a culture of thinking collaboratively and cooperatively rather than competitively. According to her, the themes that are common to UK social entrepreneurs when they define their organization's sustainability involve financial, social, and environmental dimensions.

The emphasis on financial aims when the term sustainability of social enterprises is used is found in the Korean policy context as well. Even though the words sustainability, self-sufficiency, and sustainable development are used in a confusing way, these words are believed to focus on the financial dimension of organizations. Recent important public plans, the Social Enterprise Promotion Plans of 2010 and 2011 (Korean Government, 2011; Ministry of Labour, 2010a), are intended to reduce direct financial aid to social enterprise through enhancing the latter's financial viability.

Acquiring and maintaining legitimacy is emphasized by Moizer and Tracey (2010) in their explanation of the sustainability of social enterprise. As for traditional companies, generating profits through business activities in the market is basic for obtaining legitimacy. According to the authors, however, social companies must attract and

retain legitimacy from two categories of stakeholder: people interested in the economic outcomes of companies and people concerned with their social value.

In spite of the frequency with which the term appears in recent research into Korean social enterprise, theoretical and systematic contemplation is rarely found. A few research studies employ the term without defining it; or perhaps they suppose it to mean the continuity or success of organizations (Gwak, 2011; Lee, 2008); whilst other studies use the word in a confusing way without distinguishing between sustainability and financial sustainability. Certain researchers (Choi, 2012; Kim, 2010a) mistakenly refer to the literature of sustainable development that focuses on the environmental context, to explain organizational sustainability in which it does not intend to include eco-friendly missions. Unclear usage of the concept of the sustainability of social enterprise is often found in the policy context as well as at a practical social entrepreneur level.

As explained above, the term sustainability as it refers to social enterprise has rarely been examined in an extensive and systematic way. In addition, it is hard to find an appropriate definition of the sustainability of Korean social enterprise, since the term is used without clear conceptualization in the country's context. As a result, the research needs to give the term a clear definition based on previous literature. In the research, the sustainability of social enterprise is defined as the state of achieving social purposes and staying financially viable. A more detailed and operational definition will be discussed in Chapter 4, Methodology.

The organizational sustainability defined above for the research can be influenced by various exogenous and endogenous elements. These elements can be categorized into structural factors and agency factors, and their influence on sustainability can be understood more fruitfully if we use Giddens's structuration theory and Mellahi and Wilkinson's integrative framework for exploring organizational failure.

### **3.2.2 Structuration Theory**

In the process of constructing a theoretical framework within which to examine the research topic, organizational sustainability, the researcher found that Giddens's structuration theory could become a critical shaping approach to understanding the connection between external and internal factors. In the early stages of the study, the researcher was interested in the significant role played by external or environmental factors as they are emphasized in functionalism or structuralism in social science. This was because the researcher was a government official, who commonly focused on and dealt with policy, in many cases considered as an external factor influencing certain social phenomena. However, at the same time, the researcher felt it necessary to consider internal elements such as social entrepreneurship and organization, since he repeatedly heard about the significant role played by those drivers from stakeholders in meetings and discussions. The point became stronger as the researcher read the literature of hermeneutics and interpretivism, which put human agency above structure. In the theoretical conflict, a dynamic approach devised by Giddens, structuration

theory, was attractive to the researcher because the theory examined the relationship between structural and agency factors in a dynamic and balanced way. Structuration theory played an important role in forming the researcher's ideas about categorizing factors into structural and agency groups and assuming a balanced relationship between the two, even though the main focus of the research was the relationship between the sustainability of social enterprise and various factors rather than the relationship between factors themselves.

As Nicholls insists (2006), structuration theory proposes various views and instruments that will help analyse important questions about momentums and restraints in a social enterprise study. The sustainability of social enterprise can be regarded as a result generated by interaction between contextual forces and human activities. At this point, where researchers examine organizational outcome, it is useful to understand structuration theory, which explains the connection between a social phenomenon, structures and agents. In particular, understanding the assumption about structure and human nature is essential, as the organizational outcome can be understood differently according to the specific assumption. According to Reed (1997) the ways in which the relationship between social agents and structures is defined can decide the terms, methods and philosophy for understanding and explaining organizations studied.

In the social science realm, there have long been important debates about the relationship between structure and agency. One stream in the debates explains that

contextual factors dominate individual behaviours, while another argument emphasizes creative and voluntaristic individual choices, downplaying the constraints imposed by structure. Giddens, dissatisfied with the conflicting dichotomy, has insisted on structuration theory in endeavours toward the integration of structure and agency (Lane, 2001).

Functionalism and structuralism, which share naturalistic and objective viewpoints, stress an idea that prioritises social structure over its agents, that is to say, these concepts have tried to delineate how objective structures affect individual actions (Giddens, 1984; Lane, 2001). According to these deterministic approaches, social structures are regarded as principal and unchangeable, whilst agency by individuals is neglected as a superficial issue (Sewell, 1992). In the naturalistic approach, on the one hand, an objective relationship of cause and effect is regarded as a starting point for study; on the other hand, subjectivity is regarded as an enigmatic area or residual phenomenon (Giddens, 1984).

Hermeneutics and interpretivism, which insist on critical differences between the natural and social sciences (Giddens, 1984), however, have tried to explain how voluntaristic individuals, as creators of social structures, behave (Lane, 2001). Contrary to the deterministic view, for hermeneutic scholars, the realm of nature that has to be examined only from the outside is ambiguous (Giddens, 1984). Interpretivists concentrate on the actions and meaning of human agents rather than social structures;



that is to say, there is not much focus on structural constraints.

According to Lane (2001) such traditional deterministic and voluntaristic ideas, which represent the dichotomy of structure and agency, and objectivity and subjectivity, are increasingly overcome by efforts to integrate the two trends. Giddens's dissatisfaction with the traditional deterministic and voluntaristic theories attributes weaknesses to both approaches (Kim, 1999). According Giddens (1987), theorists of objectivity are not adept at explaining concepts attributed to human actions, such as self-understanding, intentionality and acting for reasons. In addition, they fail to examine the dynamics of agents and structures, because they regard agents as superficial (Kim, 1999). Kim explains that voluntarists also show limitations in supplying relevant knowledge about social phenomena, because they cannot give a proper account of the structural constraints that regulate agents and their actions.

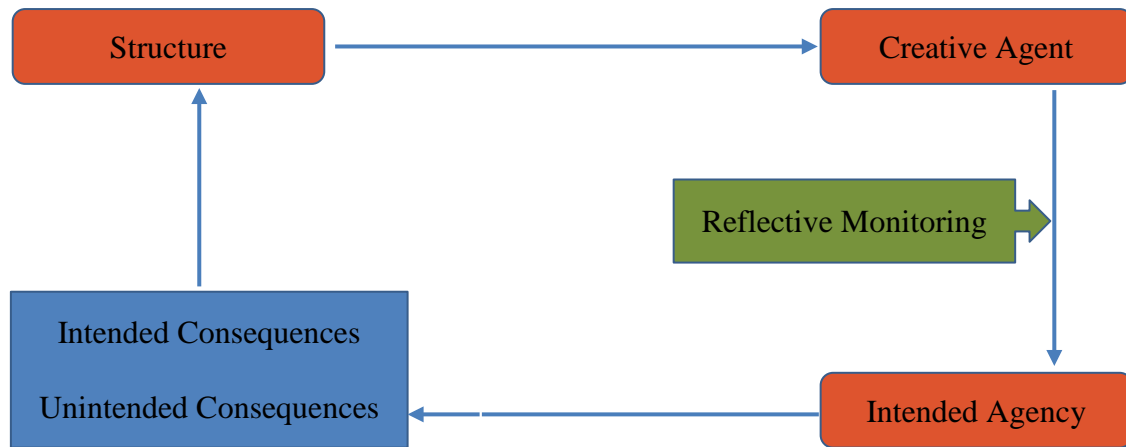
### **Agency, Structure and Structuration**

A reflective relationship, in other words a feedback process, between human agency and structure is stressed in the structuration theory (Lane, 2001). Agents, in Giddens' argument, always have the possibility of acting differently, and are not just bound by given structural constraints. When individual agents take certain actions, they reflectively monitor not only their own behaviour and other people's activities but also contextual features of these activities (Giddens, 1984), so as to be more secure and to manage situations more effectively (Lane, 2001).

Human agency, according to Giddens (1987), is conceptualized as a continuous process in which reflexive monitoring is carried out. Giddens explains that when agency is referred to, the main point is the agents' capacity to undertake certain behaviours, so the intention behind their actions is not a defining element for the concept. Agency by innovative human agents generates unintended as well as intended outcomes, and these outcomes are reflected in the production or reproduction of structure.

Giddens maintains that structure consists of rules and resources that are utilized by people in the process of interaction. He defines rules as 'generalizable procedures applied in the enactment or reproduction of social life' (Giddens, 1984, p. 21). Reflexive agents make use of rules as principles in their interaction in society. Resources are identified in Giddens' study (1979, p. 92) as 'the media whereby transformative capacity is employed as power in the routine course of social interaction'. As such, resources mean material equipment and the organizational capabilities of people carrying out certain actions (Turner, 1986). Structure made up of rules and resources tends to be transformable, producible and reproducible by reflexive agents across time and space rather than static. The argument is logically connected to the concept of the duality of structure.

Figure 3-1) Cycle of structure, agent and agency



The duality of structure, the core idea of the structuration theory, explains that the relationship between agents and structures does not separate the two into independent units or groups but closely connects each to the other (Giddens, 1984). Through this duality, structures possess traits of both the medium and the outcome of the practices whose repetition constructs the social system. That is to say, structures influence and construct agents' practices, and at the same time human practices produce or reproduce structures (Sewell, 1992). In this sense, structures that are traced in memory or instantiated in social practices have properties that are internal rather than external to agents (Giddens, 1984, p. 25). Moreover, structures do not just restrict human agents, but continuously both constrain and enable people. Therefore, agency and structures presuppose the existence of each other rather than an opposing relationship (Sewell, 1992). The structuration theory has been adopted in organizational literature as in other social science disciplines.

## **Structuration Theory in Organizational Levels**

With regard to organizational studies, the agent and structure debate is similar to that in other social sciences. Early neo-institutional literatures maintained that individual action and organizational structure were determined by institutional environments (Battilana, 2006). They presumed agents and organizations had a tendency to conform to institutional constraints. This approach, however, is not appropriate to explain the endogenous transformation of institutions.

Neo-institutional scholars since the late 1980s have focused on agents and organizations as significant variables to explain institutional change (Battilana, 2006). In their delineation, the concept of institutional entrepreneurs as active agents plays an essential role in leading to institutional change. According to DiMaggio (1988), those institutional entrepreneurs who have a specific interest in institutional arrangements can change institutions or develop new ones by means of mobilizing resources.

The concept of institutional entrepreneurs assumes a dialectical relationship between human agency and institutions (Battilana, 2006). As in Giddens's theory of the duality of structure, individual agents in organizations are not merely constrained by institutions that are originally created by human agents (Powell and DiMaggio, 1991). According to Battilana (2006), the objective properties of institutions are the result of agents' activities, that is to say, constructed objectivity. Human agents, even though they are embedded in, and their ideas and belief are influenced by, institutions, can

innovate and transform the latter. Considering the significant role of human agency, relevant social studies have to be conducted at the interrelated levels of individuals, organizations and institutions (Friedland and Alford, 1991).

### **Application to the Research**

A theoretical framework for the research is basically constituted on the basis of structuration theory. Given this, the sustainability of social enterprise is regarded as the result of the interconnection between the elements of structure and agent. Although all the elements were identified in other literature, they are allocated either to the structure or to the agency category and presumed to be influenced by each other. For example, social entrepreneurs as an agency factor that is limited by government policy, which can be called a structural factor, have an effect on shaping new government policy. In addition, the interaction of social entrepreneurs and government policy could affect the sustainability of social enterprise. In a similar vein, Mellahi and Wilkinson's integrative framework for understanding an organization's failure is valuable to the author's research because the framework intends to explain organizational phenomena through interaction between external and internal elements.

#### **3.2.3 Integrative Framework for Understanding Organizational Failure**

It is a naturally accepted notion that certain organizations are sustainable while others

are unsustainable. At a certain point, this unsustainability is likely to mean organizational failure, disappearance, exit or closure. A great volume of study has been carried out on organizational outcomes of success or failure and the causes of these. Some researchers have emphasized human factors, while others have focused on environmental drivers when they discuss organizational failure. A review of the literature on organizational failure is necessary to the study of organizational sustainability, in that the researcher could gain critical insights by examining which elements lead organizations to be sustainably successful and which lead them to failure. In addition, the integrative framework of Mellahi and Wilkinson (2004) stimulated the researcher's intuition in constructing a theoretical framework to study the sustainability of Korean social enterprise.

As well as agency/structure arguments in social science, there have been similar discussions in the literature of organizational failure. Two separate views explaining the causes of organizational mortality have existed: the deterministic approach and the voluntaristic approach. The major difference between the two approaches is whether or not the role of managers in organizations is considered a significant element in success or failure. The deterministic approach emphasizes the critical role of environments, while the voluntaristic one focuses on managers. Criticizing the dichotomy of previous approaches, Mellahi and Wilkinson (2004) propose a reconcilable perspective in which exogenous and endogenous elements are considered together to understand organizational failure. Their integrative framework was helpful to the researcher in

constructing a theoretical framework and in understanding various elements that have an effect on organizational sustainability. This section, therefore, introduces organizational failure literature and the integrative framework, basically following Mellahi and Wilkinson's work of 2004.

### **The Deterministic Approach**

In the deterministic approach, external factors decide an organization's destiny because organizations are embedded in their environment. Scholars supporting this approach insist that industrial or market elements have more powerful effects on performance than organization-related elements (McGahan and Porter, 1997; Rumelt, 1991; Schmalensee, 1985). In their view, internal factors such as management are transitory or negligible. Mellahi and Wilkinson (2004) explain that the deterministic view includes an industrial organization perspective (IO) and an organizational ecology perspective (OE). Overall, this approach has a weakness in that it excludes internal causes that can provide a better understanding of the failure of organizations.

According to IO, organizational failure is generated by external causes likely to occur as a result of sudden, rapid and large changes in demand or strategic competition (van Witteloostuijn, 1998). Jovanovic and Lach (1989) suggest that if the price of products decreases enough, due to competition created by new entrants, the exit of firms can occur. Frank (1988) insists that the winding up of organizations is the result of low revenues being anticipated for the future. Additionally, industry instability (Sheppard,

1995), market and technological turbulence (Slater and Narver, 1994) and cyclical drop in demand (Mellahi and Wilkinson, 2004) are indicated as instrumental causes of failure.

OE locates the causes of failure or survival in organizational populations rather than individual companies (Mellahi and Wilkinson, 2004). Theoretically, based on the natural selection model (Hannan and Freeman, 1977), OE scholars emphasize the roles of other organizations affecting the failure or success of firms in an organizational ecology. For this reason, the critical goal of the OE view is to explore the reciprocal interactions among populations in an organizational ecosystem and the processes of firms' growth and decline. The possibility of organizational failure or success is explained by several elements: population density, organization age and size (Mellahi and Wilkinson, 2004).

According to the population density view, the number of firms as a whole within the population determines the failure rates of organizations (Baum and Singh, 1994). Hannan and Freeman (1988) maintain that there is a U-shaped relationship between population density and the rate of disbanding among American unions. Scholars involved with the density dependence model have proposed that early increases of population density can raise organizations' institutional legitimacy and produce interdependence. The organizational failure level, however, might increase as the continuous growth of population can intensify competition for limited resources.



Regarding age, a number of organizations fail at an early stage because they should create the routines and practical management processes that old firms already possess (Mellahi and Wilkinson, 2004). These old companies can be said to have an advantage over the new organizations in that maintaining those constructed routines and processes is easier than creating them. Aldrich and Auster (1986) refer to barriers that new firms face, such as financial and technological weaknesses, the need to create brand recognition in the market, regulatory barriers that must be satisfied, extreme competition, and lack of experience.

In terms of size, several experts note that the bigger the organization, the lower the possibility of organizational failure is (Dunne et al., 1988; Evans, 1987; Sutton, 1997). According to them small companies are likely to fail because they have problems raising capital and finding high quality workers, and have high administrative costs and low legitimacy.

### **The Voluntaristic Approach**

Mellahi and Wilkinson (2004) place organization studies (OS) and organizational psychology (OP) in the voluntaristic approach. In the OS and OP approaches, managers are the significant decision-makers for their organizations. In other words, the voluntaristic approach maintains that organizational failure is connected with internal errors by managers responding to external challenges. They point out that although the approach provides a rich resource for research, it frequently shows

contradictory consequences, because it depends on a few middle-range theories without a grand theory. In addition it has limitations in explaining contextual elements since it focuses on internal factors too much.

### *Organization Study (OS)*

‘Groupthink theory’, a term coined by Irving Janis of the OS school in 1971, proposes that decision-makers in small groups have a tendency to make sub-optimal decisions (Esser, 1998; Mellahi and Wilkinson, 2004). From the Watergate case analysis, Janis identifies the ideological homogeneity of members and strong pressure caused by outside intimidation as causes of groupthink (Esser, 1998). Callaway et al. (1985) explain that organizations that are in a state of anxiety or lack dominant members are apt to fall into groupthink and make poor decisions. Once the groupthink mentally sets in, managers misunderstand situations and make poor decisions, causing organizational failure (Mellahi and Wilkinson, 2004).

According to Sheppard’s (1995) study, a company’s possibility of survival has a significant relationship with connections among the members of the board of directors. A connection strengthening a firm’s influence on suppliers of the resources necessary to survive can reduce the likelihood of failure. Regarding group characteristics, heterogeneous groups are likely to be more efficient than homogeneous teams, particularly in turbulent environments (Murray, 1989; Pitcher and Smith, 2001). Similarly, research of Mellahi et al. (2002) shows that top managers who have

experienced previous great successes, and are interested in the status quo, or in their own interests in organizations, are ineffective in dealing with an external crisis.

Hambrick and Mason (1984), in their upper echelons perspective, mainly focus on top decision makers' characteristics to explain organizational performance. According to them, an upper echelon's characteristics consist of the managers' age, other career experience, education, and financial position, as well as group characteristics. According to a large number of research studies, long-tenured managers have a tendency to attribute the causes of failure to external and uncontrollable events, ignoring internal causes such as their own wrong strategy or decisions (Mellahi and Wilkinson, 2004).

#### *Organizational Psychology (OP)*

OP scholars explain that managerial misconduct causing organizational failure happens due to factors that exist beneath the conscious level (Mellahi and Wilkinson, 2004). Thus OP researchers try to connect personal hidden, repressed motivations, feelings and dynamics to organizational mortality. With a psychodynamic process such as rationalization, people naturally do not identify their own significant faults and the disastrous outcomes of these when they fail (Brown and Starkey, 2000), and this psychological characteristic is labelled 'cognitive inertia' (Hodgkinson and Wright, 2002) by OP scholars.

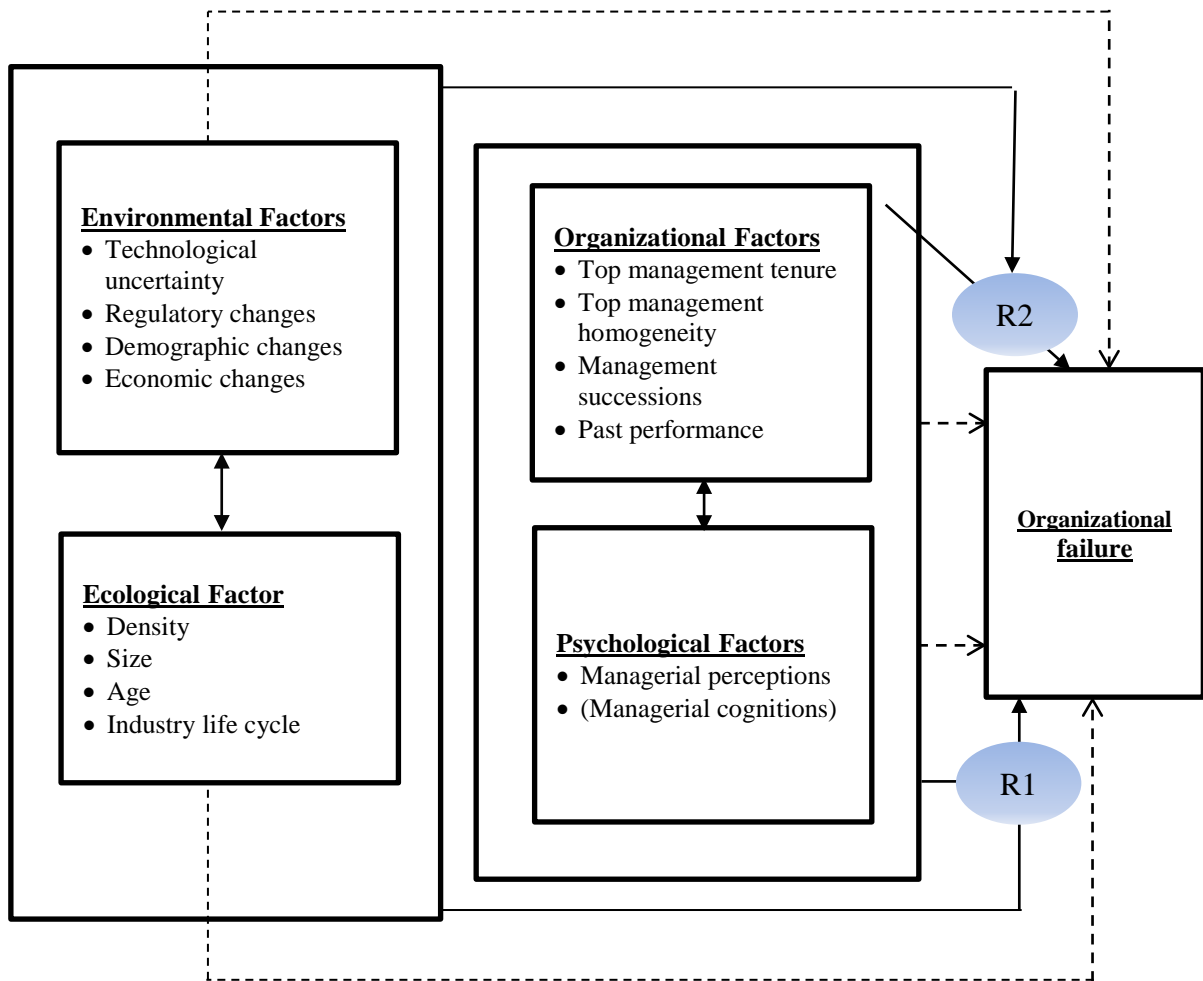
## **The Integrative Approach**

Mellahi and Wilkinson (2004) propose the integrative framework to enable us to understand organizational failure in a more advanced way. They believe that better understanding of failure is possible when the process of interaction between external and internal factors is recognized. Thus, the deterministic view and the voluntaristic view are compatible, and the integrative approach of the two views supplies a more comprehensive understanding of organizational failure than any single approach.

According to the integrative approach, environmental and organizational factors can affect organizational failure independently and directly (dotted lines in Figure 3-2). The creators of the approach, however, argue that the direct connection occurs only in extreme conditions, including disaster in environments or catastrophic mismanagement.

This framework implies that the outcomes of internal factors can be modified by remarkable environmental and ecological causes e.g. population density, a firm's size and age, and external shocks (R1 and R2 in Figure 3-2). Therefore the influences of internal elements on organizational failure may increase or decrease according to the role of external factors. For instance, the effect of managerial succession as an internal factor varies according to the external situation when the succession happens. The negative influence of the succession on bigger and older (size and age) firms is likely to be smaller because they may have a more developed procedure for smooth succession compared to smaller and younger organizations.

Figure 3-2) Integrative framework



Source: Mellahi and Wilkinson (2004, p. 32)

### Application to the Research

The integrative approach explained above has valuable meaning for the study in terms of constructing the researcher's theoretical framework and identifying diverse general factors influencing organizational sustainability. First of all, the researcher's theoretical framework - in other words, his comprehensive approach - reflects Mellahi

and Wilkinson's integrative idea, so it presumes organizational sustainability is decided by interaction between environmental and organizational drivers. The two groups of drivers in the researcher's framework are called 'structural factors' and 'agency factors'. The researcher's framework, however, maintains that outcomes caused by structural factors (environmental factors in Mellahi and Wilkinson's framework) can be mediated by the role of agency factors (organizational factors in Mellahi and Wilkinson's framework), while Mellahi and Wilkinson only emphasise environmental factors as modifiers, without discussing the opposite possibility. For instance, the researcher believes that the influence of sudden change in public policy can be increased or reduced by management.

Secondly, various elements affecting an organization's destiny are identified through organizational failure literature and the integrative approach, even though these elements are mainly related to for-profit companies. On this point, the researcher needed to identify more specific factors directly connected with the sustainability of social enterprises by reviewing the relevant literature. Academic works that clearly deal with factors of sustainability, however, are too few in number. So, the researcher reviewed previous studies of the success factors of social enterprises as well as literature concerning sustainability factors. In terms of social enterprise, the words 'success' and 'sustainability' are used as having a similar meaning to explain the long-term viability and constant pursuit of social purposes (Coburn and Rijsdijk, 2010).

### **3.2.4 Literature on Factors Influencing the Success or Sustainability of Social Enterprises**

The concept of success is not clearly defined in the literature, so the term is thought of as survival or growth, and includes meanings such as financial growth, adapting to market change, product innovation, longevity and company succession (Coburn and Rijsdijk, 2010). Whilst the term ‘social enterprise success’ is relative rather than absolute in the literature, social entrepreneurs’ notion of success is much clearer. Coburn and Rijsdijk (2010) explain that leaders of social enterprises talked first about the success of their organization in terms of achievement – delivering on objectives, achieving outcomes, and changing lives and communities – while continuing to operate in a financially sustainable way.

By contrast, the term ‘failure’ of social enterprises is relatively straightforward. It is defined as the closing down of business activities in an involuntary or unplanned way (Coburn and Rijsdijk, 2010). According to Brown (2002), failure of social enterprises is attributed to a range of obstacles such as small size, a lack of resources, and finance and funding issues. Besides these, a shortage of competent staff, inadequate geographical location and cash flow troubles are pointed to as factors in social enterprise failure (Brown and Murphy, 2003).

Table 3-1) Factors influencing the success or sustainability of social enterprises

	<b>External Factors</b>	<b>Internal Factors</b>
Coburn and Rijsdijk (2010)	<p><u>High level of influences</u>: politics, economy, and society</p> <p><u>Localized and direct influences</u>: local resource availability, regulation, customer demand and purchasing behaviour, market competition, public policy priorities at local level, availability of funding, and support arrangements to make use of public and private financial and non-financial resources</p>	<p>Strong social aim, leadership, market and stakeholder orientation, contribution to others' values, cultivating various relationships, effective structure to adapt and grow, strategic management, entrepreneurship, sustainable profitability, and open, learning, and innovative organizational culture</p>
Moizer and Tracey (2010)	Distinguishing community need, support from community and other external partners	Accumulated capital, social activities, recognized legitimacy of organizations, competitive advantage
Sharir and Lerner (2006)	<u>Environment dimension</u> : public discourse accepting social ventures, and social network	<p><u>Entrepreneur dimension</u>: knowledgeable and experienced entrepreneurs, and mission-oriented entrepreneurs</p> <p><u>Organization dimension</u>: capital base at the early stage, and competent venture team</p> <p><u>Process dimension</u>: cooperation with other organizations, and ability to overcome market tests</p>
Jiao (2011)	Social environment and institutional environment	Desirability and feasibility of social entrepreneurial decision, human and social capital of social entrepreneurs
Peattie and Morley (2007)		Building team with shared values and necessary skills, informal network, and secure and sustainable funding



British Waterways (2007)	Access to finance	Shared responsibility of stakeholders, market and profit orientation, emphasis on people, clear mission, effective governing structure, relevant leadership, responsive and flexible structure to adapt to changes, protecting and maintaining mission, clear system to distribute profits, innovation-oriented, charity status, ability to make proper and timely decisions, competent board members and staff, utilization of voluntary resources, and credibility.
McBreathy (2007)	Substantial commitment from external stakeholders	Products or service possible to trade in market, identification of relevant market, capacity and aspiration to transform organizational culture, substantial commitment from inside stakeholders, strategic management, and balance between social mission and commercial activity.
Lee (2006)	Relevant business type, and social supports	Leadership, and system for reciprocal-regulation and conflict alleviation
Jung (2008)		Leadership of founders, management balanced between profitability and social mission, enough research into market, accurate evaluation of organizational assets, clearly divided responsibility system, and cooperation between inside staff and external experts
Lee (2008)		Managerial strategy, social entrepreneurship, capable managers, effective communication, democratic decision-making process, and social networks.

Coburn and Rijsdijk (2010) propose critical success factors for social enterprises as a result of case study research into the experiences and learning accumulated by 11 successful social enterprises, and those factors are divided into internal and external dimensions. According to them, essential internal factors include a strong social aim, competent leadership, market and stakeholder orientation, contribution to others' values, cultivating various relationships, effective systems or structures that are highly adaptable and capable of growth, strategic management, entrepreneurship, sustainable profitability, and an open, learning, and innovative organizational culture.

It is obvious that no organization operates in a vacuum, so there are a number of external factors influencing organizational success. Coburn and Rijsdijk (2010) argue that the external factors can be identified at two levels: high level influences, and localised or direct influences. According to them, on the one hand, high level influences are seen by the study as including politics, the economy and society. Politics is the single biggest influence on the creation and shaping of the market for social enterprises. Economic conditions are also fundamental, because they decide the level of wealth and inequality in society, the ability of the public sector to meet social needs, and the buying activities of public organizations, private firms, and consumers. Social trends are significant as well in that they decide the customer demand, which is something social enterprises have to deal with. When it comes to localised or direct level influences, on the other hand, the study refers to local resource availability, regulation, customer demand and purchasing behaviour, market competition, public

policy priorities at the local level, the possibility of obtaining grants, and the availability of public and private financial and non-financial resources.

Following research into the conflict between resource distribution with social aims and commercial activity – research in which they undertook analysis using a causal loop diagram – Moizer and Tracey (2010) propose drivers affecting the sustainability of social enterprises. According to them, the sustainability of social enterprise is determined by three causal influences: perceived community need, accumulated capital, and recognized legitimacy of organizations. If there are significant social needs unsatisfied in a community, social activity by social enterprises can satisfy these unmet needs. The increased activities by social organizations reinforce the organizational legitimacy granted by the local population. Increased legitimacy contributes to the growth of support from the community and other external partners. Accumulations of capital, which are influenced by competitive advantage, have an effect on shaping sustainability as they can attract investment from external agents.

Sharir and Lerner (2006, p. 8) present three standards by which the success of social ventures can be judged:

- (1) the degree to which the social venture achieves its declared goals;
- (2) the ability of the venture to ensure program/service continuity and sustainability by acquiring the resources necessary to maintain current operations; and
- (3) the measure of resources available for the venture's growth and development.

They propose eight variables that contribute to success, and these are categorized in four dimensions: the entrepreneurial, the environmental, the organizational, and the processual. With regard to the entrepreneurial dimension, not only do successful entrepreneurs have the knowledge and previous managerial experience necessary for venture performance, but they are also totally dedicated to the mission of their ventures. In the environmental dimension, acceptance of the idea of the venture in the public discourse and the primary social network are identified as important factors. Regarding the organizational dimension, the capital base at the founding stage, and the composition and functioning of the venture team, act as key elements. Lastly, in the processual dimension, long-term cooperation with other organizations and the ability to fulfil the market test are listed as success factors of social ventures.

Jiao (2011), in an endeavour to construct an integrated model for social entrepreneurship primarily based on antecedents, argues that the most significant drivers for the outcome of social entrepreneurship are the desirability and feasibility of social entrepreneurial decisions, the human and social capital of social entrepreneurs, and the social and institutional environment. The author emphasizes social environmental elements as the precondition of successful social enterprise activities, referring to the roles of foundations, research institutions and government support in the cultivation of social entrepreneurship in the UK and USA. In Jiao's argument, institutional environmental drivers are important for social enterprise activities, as shown in the vigorous UK social enterprise movement, with its government support.

A report produced by British Waterways (2007) shows the critical success factors for social enterprises. According to the report, the long-term sustainability of social enterprises can be achieved through concentration on their market, consumers and profitability. A number of items are referred to in the report as critical success factors for social organizations. These are access to finance, shared responsibility by stakeholders, a market and profit orientation, an emphasis on people as critical assets, a clear mission, an effective governing structure, relevant leadership, a responsive and flexible structure to adapt to change, protecting and maintaining their mission, a clear system for distributing profits, being innovation-oriented, charity status, the ability to make proper and timely decisions, competent board members and staff, utilization of voluntary resources, and credibility.

According to Peattie and Morley (2007) the success of social enterprises depends on building teams with shared values and the skills needed. In addition, informal networks are significant for social enterprise success, particularly at the stage of establishment in terms of accessing resources, obtaining professional advice, and employing workers and volunteers. Besides these, they stress access to secure and sustainable funding as a key factor in determining social enterprise success.

McBreaty (2007), in her research using an action research framework, identifies critical success variables. According to her, first of all, all social organizations need products or services that can be traded in the market. The second factor is that social

enterprises must identify relevant markets in which consumers have the resources and the intention to pay for products and services. The capacity and aspiration to transform organizational culture is referred to as a third driver. Moreover, successful social enterprises need substantial commitment from both outside and inside stakeholders. As well as these variables, McBreaty discusses strategic management and balance between social mission and commercial activity.

Regarding Korean literature, Lee (2006) in his research into a successful Korean social enterprise, ComWin, introduces four critical success factors: selection of relevant types of business, leaders and professional managers able to run the organization properly, social support, and a system for reciprocal-regulation and conflict alleviation. Meanwhile, Jung (2008) argues that the leadership of founders, balanced management for both profitability and social mission, enough research into the market, accurate evaluation of organizational assets, a system of clearly divided responsibility, and cooperation between internal staff and external experts are basic factors for success. According to Lee (2008), the performance of social enterprises is influenced by managerial strategy, social entrepreneurship, capable managers, and organizational factors including effective communication, democratic decision-making process, and social networks.

### **Limitations of the Literature and Application to the Research**

Even though the literature about social enterprise success factors is valuable for

defining meaningful forces producing sustainability, literature that obviously focuses on elements influencing the success of social enterprise is very limited (McBrearty, 2007). Moreover, the success of social enterprise has a tendency to be supported by anecdotal stories, not by a theoretical research framework (Peattie and Morley, 2007). Another weakness of the existing literature is that in many cases structural or environmental elements are likely to be neglected, despite their critical roles, which can be confirmed from the literature of organizational failure, explained in the previous section. Although a few research studies such as those of Jiao (2011) and Coburn and Rijdsdijk (2010) regard contextual dimensions as important factors, it is surprising that social economy is rarely referred as an important external force.

The outline of the researcher's theoretical framework was constructed on the basis of Giddens's structuration theory and Mellahi and Wilkinson's integrative approach. However, specific drivers possibly influencing sustainability were listed in the literature on factors influencing the success or sustainability of social enterprise, and the researcher therefore allocated those variables identified into categories in the theoretical framework for understanding the sustainability of Korean social enterprise. In spite of its absence in the current literature, social economy is located in the structural factor category as a significant contextual driver for the study.

As referred to in this section, a number of researchers emphasize internal drivers affecting the sustainability of social enterprise. Among the internal variables, social

entrepreneurs (managers) and social entrepreneurship (management) are central, since most internal drivers are closely related to social entrepreneurs and their activities. While the importance of social entrepreneurship is admitted by most researchers, a commonly accepted definition of social entrepreneurship does not exist. Thus, the next section will explain critical issues concerning social entrepreneurship, focusing on discussion of its definition.

### **3.2.5 Social Entrepreneurship**

As examined in the previous section, social entrepreneurs and social entrepreneurship have been emphasized as a critical factor in making organizations successful and sustainable. This accords with the argument of Weerawardena and Sullivan Mort (2001) that the achievement of social purposes as well as a sustainable competitive advantage is the outcome of social entrepreneurship and the activities of social entrepreneurs. Logically, the concept of a social entrepreneur implies social entrepreneurship in that the latter ‘is what entrepreneurs do when they are being’ the former (Peredo and McLean, 2006, p. 57).

In spite of the importance of social entrepreneurs and social entrepreneurship, as well as some valuable academic perceptions of them, it is not quite clear who social entrepreneurs are and what social entrepreneurship means (Dacin et al., 2011, 2011; Nicholls, 2010b, 2006; Sullivan Mort et al., 2003; Weerawardena and Mort, 2006), let



alone what the connection is between social entrepreneurship and organizational sustainability.

Social entrepreneurship as an activity that pursues both social purposes and profit generation at the same time has gradually become a global cultural phenomenon over the last three decades (Choi and Majumdar, 2014; Dacin et al., 2011; Mair and Martí, 2006). With the advent and fast proliferation of the concept, the topic has attracted growing attention from researchers recently (Certo and Miller, 2008). In spite of increasing academic interest and certain prominent works, scholars admit that there have been so many competing definitions of social entrepreneurship (Choi and Majumdar, 2014) that the field of research has not even constituted a paradigmatic agreement or a theoretical framework (Mair and Martí, 2006; Nicholls, 2010b).

According to researchers, it is difficult to assign an exact definition to social entrepreneurship because the concept has different meanings to different individuals and scholars (Mair and Martí, 2006; Zahra et al., 2009). Additionally, ‘social’ which is a profoundly complicated, contested and value-laden word, worsens the conceptual confusion when it is combined with another ambiguous word, entrepreneurship, over which there has been persistent disagreement (Zahra et al., 2009).

Dacin et al. (2010) and Dacin et al. (2011) propose four essential conceptual elements of social entrepreneurship through examining the current literature. The four factors include ‘the individual qualities of social entrepreneurs, the area of social

entrepreneurs' activities, the procedures and resources mobilized by them, and the social entrepreneurs' main mission'.

Early studies on social entrepreneurs focused on prominent leadership qualities deployed in them, such as passionate identification of vision, momentous credibility, honesty, a special talent for making members follow projects constructed to achieve a social purpose, and a high moral tendency (Mair and Martí, 2006; Weerawardena and Mort, 2006). Dacin et al. (2010), however, criticize the method of focusing on individual qualities as likely to cause unceasing argument about what abilities are more desirable, since it is hard to say there exists a definitive set of qualities appropriate to every aspect of social entrepreneurial activity. Similarly, Mair and Martí (2006) are pessimistic about whether the method can identify the essential differences between social entrepreneurship and other types of entrepreneurship. Peredo and Mclean (2006) add their criticism, arguing that entrepreneurship can be understood better when it is examined drawing on cultural backgrounds that are imbued with cooperative rather than individualistic ideas.

In terms of the operation of social entrepreneurship, the sphere of not-for-profit organizations has been the basis for the greatest part of the literature on social entrepreneurship (Weerawardena and Mort, 2006). Although certain researchers, such as Sullivan Mort et al. (2003), usually focus on voluntary or not-for-profit organizations as a place of social entrepreneurship activities, a number of other authors,

such as Mair and Marti (2006), maintain that social entrepreneurship is possible in the area of for-profit operation.

A certain group of scholars emphasises process or procedure when they examine social entrepreneurship. It is widely accepted that current entrepreneurship research should focus more on the procedures or behaviour of actors, rather than the personal qualities or background of leaders, which have very often been the subject of the existing literature (Mair and Martí, 2006). Taking this approach, Mair and Marti (2006, p. 37) define social entrepreneurship as ‘a process involving the innovative use and combination of resources to pursue opportunities to catalyse social change and/or address social needs’.

An effort to develop a more economically relevant theoretical framework to examine the concept of social entrepreneurship has been made. Santos (2012, p. 335), in a positive theory of social entrepreneurship, defines social entrepreneurship as ‘the pursuit of sustainable solutions to neglected problems with positive externalities’ arguing that the traditional contradiction between economic and social wealth has prevented theoretical development. In this definition, neglected problems mean social issues that are not addressed by the market as well as being neglected by government, because of failures that have occurred in both spheres. In this framework, social entrepreneurship is taken as having positive externalities, because the value for society that is created by social entrepreneurial activities is far greater than the value for individual recipients of goods and services supplied by social entrepreneurs.

For several authors, a social mission is a primary, central and explicit element which can explain social entrepreneurship (Dees, 1998a; Sullivan Mort et al., 2003; Weerawardena and Mort, 2006). According to Dees (1998a), generating and satisfying social wealth is the core element that distinguishes social entrepreneurship from entrepreneurship in the business domain. Creating social value is fundamental to producing distinct entrepreneurship in the social sphere (Dees, 1998a). Reviewing Table 3-2, social value as a primary purpose of organization is generally selected as a core element across most definitions (Dacin et al., 2010). Regarding their positions on profitability, certain scholars disregard economic value creation, while other researchers admit to some limited importance for profit generation as an essential means to achieve social value (Mair and Martí, 2006).

A multidimensional model suggested by Weerawardena and Mort (2006) might be one of the most elaborate approaches for conceptualising social entrepreneurship (Peredo and McLean, 2006). If a certain construct is made up of several interconnected qualities and found in multidimensional areas, then it can be regarded as having a multidimensional existence (Sullivan Mort et al., 2003). Drawing on ground theory Weerawardena and Mort (2006, p. 31) create a bounded multidimensional approach that includes three core behaviour dimensions: 'innovativeness, pro-activeness, and risk management'. One significant contribution of the model is its consideration of a dynamic environment that constrains the behaviours of social entrepreneurs. According to Weerawardena and Mort (2006, p. 32), the accomplishment of social

value demands these three aspects of social entrepreneurship that is reactive to and influenced by the environment.

More recently, Choi and Majumdar (2014) have insisted that creating a generally acceptable concept of social entrepreneurship appropriate to every context is almost impossible, because it can be categorized as an essentially contested concept. To better understand the phenomenon, they propose a cluster concept of social entrepreneurship that consists of five conceptual elements: ‘social value creation, the social entrepreneur, the social entrepreneurial organization, market orientation and social innovation’ (Choi and Majumdar, 2014, p. 364).

In spite of various academic ideas and efforts to define social entrepreneurship, an unceasing conceptual confusion is visible in the research area (Zahra et al., 2009). Drawing on findings of this research and relevant literature, further discussion about social entrepreneurship will be performed in Chapter 7.

Table 3-2) Definitions of social entrepreneurship and social entrepreneurs

Focus	Definition
1. Personal Qualities	<ul style="list-style-type: none"> <li>▪ Innovation and leadership characteristics constitute social entrepreneurship (Kings and Roberts, 1987).</li> <li>▪ Entrepreneurs have a social responsibility to improve their communities (Cornwall, 1998).</li> <li>▪ Individuals constantly looking for new ways to serve their constituencies and add value to existing services (Brinkerhoff, 2001).</li> <li>▪ People with the qualities and behaviours we associate with the business entrepreneur but who operate in the community and are more concerned with caring and helping than ‘making money’ (Thomson, 2002).</li> </ul>

	<ul style="list-style-type: none"> <li>▪ Social enterprise differs from the traditional understanding of the non-profit organizations in terms of strategy, structure, norms, values, and represents a radical innovation in the non-profit sector (Bornstein, 2004).</li> </ul>
2. Process or Procedure	<ul style="list-style-type: none"> <li>▪ A social entrepreneur is any person, in any sector, who uses earned income strategies to pursue a social objective, and a social entrepreneur differs from a traditional entrepreneur in two important ways: traditional entrepreneurs frequently act in a socially responsible manner...; and, secondly, traditional entrepreneurs are ultimately measured by financial results (Boschee &amp; McClurg, 2003)</li> <li>▪ The process whereby the creation of a new business enterprise leads to social wealth enhancement so that both society and the entrepreneur benefit (MacMillan, 2005, Wharton Centre).</li> <li>▪ The process of using entrepreneurial and business skills to create innovative approaches to social problems. 'These non-profit and for profit ventures pursue the double bottom line of social impact and financial self-sustainability or profitability' (NYU Stern, 2005).</li> <li>▪ Applying practical, innovative and sustainable approaches to benefit society in general, with an emphasis on those who are marginalized and poor (Schwab Foundations, 2005).</li> <li>▪ A set of institutional practices combining the pursuit of financial objectives with the pursuit and promotion of substantive and terminal values (Cho, 2006).</li> <li>▪ A process involving the innovative use and combination of resources to pursue opportunities to catalyse social change and /or address social needs (Mair &amp; Marti, 2006).</li> <li>▪ A dynamic process created and managed by an individual or team (the innovative social entrepreneur), which strives to exploit social innovation with an entrepreneurial mind-set and a strong need for achievement, in order to create new social value in the market and community at large (Perrini &amp; Vurro, 2006).</li> <li>▪ A process that includes the identification of a specific social problem and a specific solution.... To address it: the evaluation of the social impact, the business model and the sustainability of the venture; and the creation of a social mission-oriented for-profit or a business-oriented non-profit entity that pursues the double (or triple) bottom line (Robinson, 2006).</li> </ul>

	<ul style="list-style-type: none"> <li>▪ Any innovative initiative to help people may be described as social entrepreneurship. The initiative may be economic or non-economic, for-profit or not-for-profit (Yunus, 2008).</li> <li>▪ Social entrepreneurship encompasses the activities and processes undertaken to discover, define, and exploit opportunities in order to enhance social wealth by creating new ventures or managing existing organizations in an innovative manner (Zahra, Gedajlovic, Neubaum, &amp; Shulman, 2009).</li> <li>▪ ‘Social entrepreneurship is the pursuit of sustainable solutions to neglected problems with positive externalities’ (Santos, 2012, p. 335).</li> </ul>
3. Social Mission	<ul style="list-style-type: none"> <li>▪ The use of entrepreneurial behaviour for social ends rather than for profit objectives, or alternatively, that the profits generated from market activities are used for the benefit of a specific disadvantaged group (Leadbeater, 1997).</li> <li>▪ Social entrepreneurs are driven by a desire for social justice. They seek a direct link between their actions and an improvement in the quality of life for the people with whom they work and those that they seek to serve. They aim to produce solutions which are sustainable financially, organizationally, socially and environmentally (Thake and Zadek, 1997)</li> <li>▪ A major change agent, one whose core values centre on identifying, addressing and solving societal problems (Drayton, 2002).</li> <li>▪ They are orthodox businesses with social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners (Harding, 2004).</li> <li>▪ The work of community, voluntary and public organizations as well as private firms working for social rather than profit aims (Shaw, 2004).</li> <li>▪ Entrepreneurs whose work is aimed at progressive social transformation....A business to drive transformational change. While profits are generated, the main aim is not to maximize financial returns for shareholders but to grow the social venture and reach more people in need effectively. Wealth accumulation is not a priority – revenues beyond costs are reinvested in the enterprise in order to fund expansion (Hartigan, 2006).</li> <li>▪ Social entrepreneurs are defined as individuals or private organizations that take the initiative to identify and address important social problems in their communities. Organizations and individuals that develop new programs, services, and solutions to specific problems and those that address the needs of special populations (Korosec &amp; Bernman, 2006).</li> </ul>

	<ul style="list-style-type: none"> <li>▪ The social entrepreneur is acting as a change agent to create and sustain social value without being limited to resources currently in hand (Sharir &amp; Lerner, 2006).</li> </ul>
4. Multi-Dimension	<ul style="list-style-type: none"> <li>▪ Play the role of change agents in the social sector, by: 1) Adopting a mission to create and sustain social value (not just private value), 2) Recognizing and relentlessly pursuing new opportunities to serve that mission, 3) Engaging in a process of continuous innovation, adaptation, and learning, 4) Acting boldly without being limited by resources currently in hand, and 5) Exhibiting heightened accountability to the constituencies served and for the outcomes created (Dees, 1998).</li> <li>▪ A multidimensional construct involving the expression of entrepreneurially virtuous behaviour to achieve the social mission...the ability to recognize social value creating chances and key decision-making characteristics of innovation, pro-activeness and risk-taking (Mort et al., 2002).</li> <li>▪ Social entrepreneurship is exercised where some person or group: 1) aim(s) at creating social value, either exclusively or at least in some prominent way; 2) show(s) a capacity to recognize and take advantage of opportunities to create that value ('envision'); 3) employ(s) innovation, ranging from outright invention to adapting someone else's novelty, in creating and/or distributing social value; 4) is/are willing to accept an above-average degree of risk in creating and disseminating social value; and 5) is/are unusually resourceful in being relatively undaunted by scarce assets in pursuing their social venture (Peredo &amp; McLean, 2006) .</li> <li>▪ Social entrepreneurship is the: 1) identification a stable yet unjust equilibrium which excludes, marginalizes or causes suffering to a group which lacks the means to transform the equilibrium, 2) identification of an opportunity and developing a new social value proposition to challenge the equilibrium, and 3) forging a new, stable equilibrium to alleviate the suffering of the targeted group through imitation and creation of a stable ecosystem around the new equilibrium to ensure a better future for the group and society (Martin and Osberg, 2007)</li> <li>▪ 'Social entrepreneurship can be viewed as a conglomerate of several sub-concepts which are identified as 1) social value creation, 2) the social entrepreneur, 3) the social entrepreneurship organization, 4) market orientation and 5) social innovation' (Choi and Majumdar, 2014, p. 364).</li> </ul>

Source: Re-categorization based on works of Weerwardena and Mort (2006, p. 23), S.A. Zahra et al. (2009, p. 521), Dacin et al. (2010, pp. 39–41), Santos (2012, p. 335), and Choi and Majumdar (2014, p. 364)



### **3.3 Theoretical Framework: Comprehensive Approach**

The phenomena of social enterprise need to be understood using a comprehensive and integrated theoretical tool that combines previous academic literature and reflections on it (Zahra et al., 2008). This researcher's comprehensive framework describing the factors for the success or sustainability of social enterprises is presented in Figure 3-3. The framework basically draws on Giddens's structuration theory, Mellahi and Wilkinson's integrative approach, and a wide range of past research into social enterprise success and sustainability variables. One clear point in the theoretical framework is that the researcher mainly examines the relationship between organizational sustainability and various drivers. That is to say, the researcher does not aim to explore a causal relationship between structural and agency factors.

#### **3.3.1 Structural Factors**

In the framework, structural factors that represent the environment, or external or contextual elements, include three sub-factors: the social economy, market type, and government policy. This category can be called structural factors because it includes rules and resources, Giddens's terms to define structure, for social enterprise activities. In other words, these factors regulate social enterprise activities as well as supply necessary resources.

First of all, the social economy provides an important structure for social enterprise, as it affects their sustainability by nurturing social entrepreneurs, forming social networks and supplying finance. This researcher agrees with Peattie and Morley's (2007) opinion that the international diversity of social enterprises reflects differences between the growth of social economies as well as between levels of social and economic development.

Secondly, the market is also one of the most important basic grounds for social enterprise, which derives profits from it through selling products and services. Therefore, it is natural that social entrepreneurs choose a relevant business type and diversify it, modifying the management strategy and investment directions according to the market situations in which their organizations are embedded.

Finally, the critical role of government policy for social enterprise movements cannot be overestimated. The extent of the influence of policy on the sustainability of Korean social enterprise may be more in evidence than in other countries. Most scholars in Korea admit that the fast growth of social enterprises in the country, especially in terms of their number, is mainly owing to strong support by the government (Bidet and Eum, 2011; Hwang et al., 2011; Park, 2012). The sustainability of social enterprises can be critically affected by their policy context, as central and local government take the roles of a funding stream and a large buyer, and create and modify necessary legal framework for social enterprise activities.

All three structural variables have been chosen on the assumption that they have close reciprocal effects on one another. For example, a catastrophic decline in a market could influence government policy and the social economy; and policy purposing economic improvement or responses from the social economy could mediate the outcome of a negative market situation. Moreover, certain industries, such as the senior care business, are heavily influenced by government policy in Korea. Demand from a population seeking senior care services can fluctuate according to the change in public support for them.

As Giddens (1984) explains, as structural factors are continuously changed or created by agency, so those structural factors in the framework do not have a static characteristic. For example, social entrepreneurs might try to change public policy, a structural factor, to be more favourable to their organizations. If their activities are successful and bring out policy change, then the structural reform can be regarded as the result of agency. Market type, another structural factor, can be changed by agency, too. For example, entrepreneurs can transform market structures with business activity that creates new demands through generating innovative goods and service.

### **3.3.2 Agency Factors**

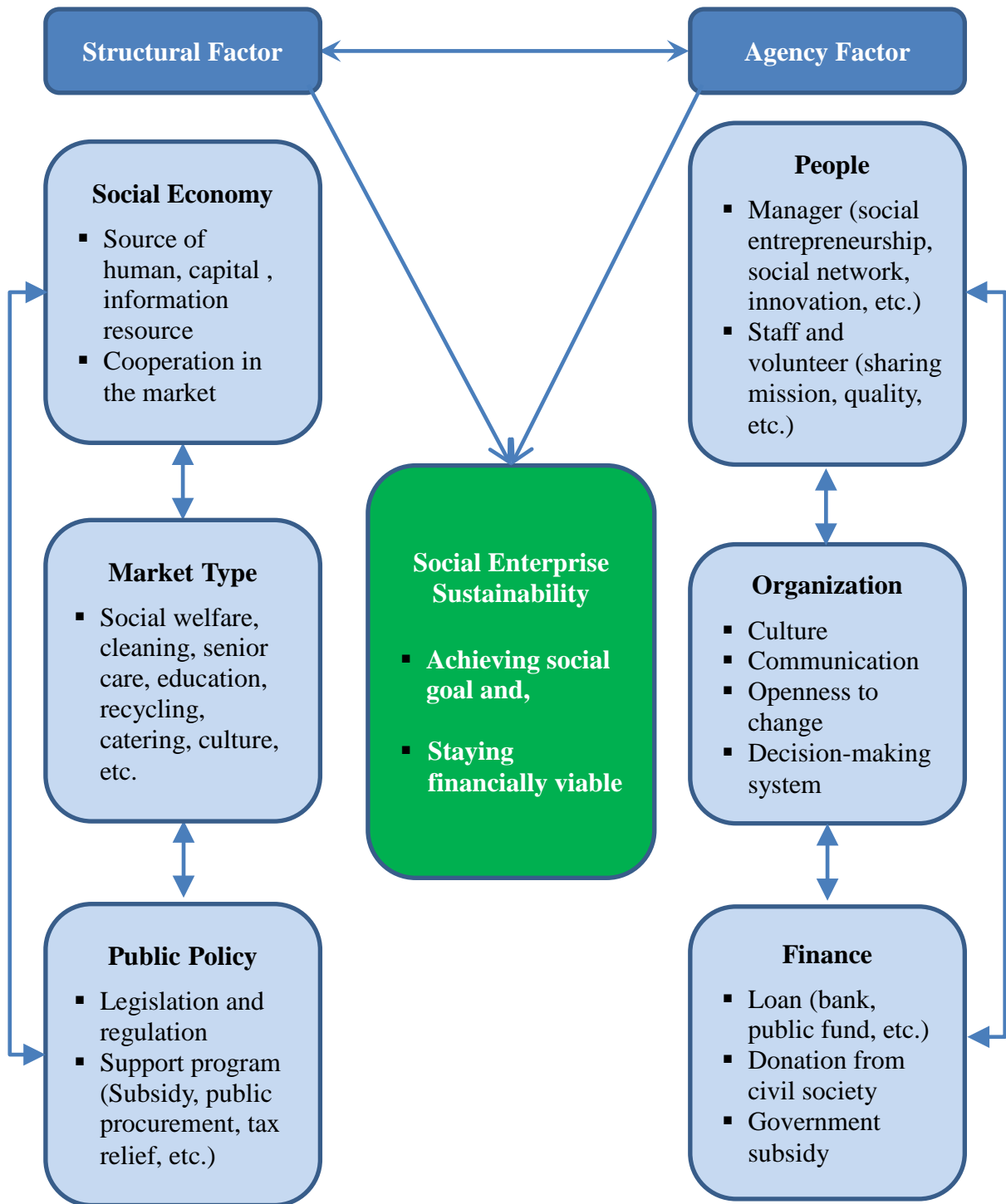
Agency factors are non-structural elements that have an effect on the sustainability of social enterprises. They include social entrepreneurs, employees, organizations and

finance. The activities of knowledgeable agents not only determine the sustainability of organizations but also are involved in constructing the structural context, even though their behaviours are also constrained by the existing structure.

As explained in an earlier section, social entrepreneurship, the competency of leaders, and their social network are essential to the sustainability of social enterprise. The factor of organization is also critical for the sustainability, as a number of experts have pointed out. An organizational culture open to change, innovation, and fluid communication are identified as organizational factors. Last but not least, the capital factor is vital in terms of the success and sustainability of social enterprises. A number of social entrepreneurs and scholars insist that improved access to capital is an urgent issue in the field of social enterprise.

This researcher follows Mellahi and Wilkinson's argument that the influence of agents is modified by structure. As explained earlier, the thesis argues additionally that the influence of environmental change can be mediated by the role of agents. For example, the outcome of a negative situation in a certain market, or public policy inconsistency, can be offset or magnified by management. That is to say, for example, strategic management can reduce the catastrophic influence of a sudden drop in demand in the market, but an over-reactive management might increase the adverse effects of structural shocks.

Figure 3-3) Comprehensive approach



### **3.4 Conclusion**

In this chapter, the researcher has explained the theoretical framework for the study of the sustainability of Korean social enterprise. First of all, the concept of sustainability on which the research was based was defined as an organizational state in which not only a social mission but also financial viability was accomplished at the same time.

The researcher's theoretical approach, a comprehensive framework, was constructed based on Giddens's structuration theory, Mellahi and Wilkinson's integrative approach and the literature about the sustainability and success drivers of social enterprise. This academic tool has the following groups of factors: a structural factor group and an agency factor group. The social economy, market type and government policy were placed in the category of structural factors; and social entrepreneurs, employees, organizations and finance were categorized as agency factors. The author believes that the above factors determine the sustainability of Korean social enterprise. Their influence on organizational sustainability will be examined through the whole research process as this is the main topic of the study.

The complex and changing characteristics of social entrepreneurship were introduced through the literature review. Further discussion about social entrepreneurs' understandings of social entrepreneurship will be conducted in Chapter 7.

## **CHAPTER 4      METHODOLOGY**

### **4.1 Introduction**

As explained in Chapter 1, the sustainability of Korean social enterprise is a current and critical issue for practitioners, researchers and government officials. The researcher obtained certain insights into research into the sustainability of Korean social enterprise through establishing, as described in Chapter 3, a theoretical framework based on the literature review. This chapter will explain the construction of relevant research questions and methodological dimensions to answer the questions.

The first section of the chapter deals with research questions that would guide the researcher to construct an appropriate research design. The questions, which fulfilled several research purposes, were based on the researcher's experiences of handling social enterprise promotion policy in Korea, and drew on the theoretical framework. The following section introduces the researcher's pragmatic viewpoint as a philosophical ground and a mixed strategy combining a qualitative principal and quantitative preliminary model. Based on the mixed strategy, a descriptive secondary analysis of data as a quantitative strategy, and a case study design as a qualitative strategy, are explained in the next section. The details of the case study design appear in the following section, clarifying critical issues in the research design. Through

strategic sampling, the researcher selected six social enterprises as research cases, and data collection in these companies was mainly undertaken by a semi-structured interview. The actual process of data collection, including pilot interviews conducted in Korea, is also introduced in the same section. Finally, data organization and a narrative approach are outlined in the section of data analysis.

## **4.2 Developing Research Questions**

In this section, the development of research questions is explained. Research questions have to be carefully formulated because they help guide the literature review, data collection, data analysis and writing up, as well as preventing the researcher from wandering into unnecessary areas (Bryman, 2008). The researcher devised research questions that were likely to be clear and could be tested empirically. These research questions guided the researcher to a relevant examination of the essential literature and encouraged him to create an appropriate research design (De Vaus, 2001; Grix, 2010; Hancké, 2009). Following White's (2008) suggestion, the researcher started from the topics and purposes of the study in order to constitute the research questions.

Research interest in the sustainability of social enterprise originated from the researcher's personal experience of managing Korean social enterprise promotion policy. As one of the people who were charged with the policy, the researcher had



some anxieties in considering ways to improve the sustainability of these organizations. These worries became more serious when the researcher faced situations in which stakeholders continuously cast doubts on social enterprises' sustainability, in spite of the large amount of public finance being injected into them. This led the researcher to wish to study how the sustainability of Korean social enterprises was shaped or influenced by certain elements, what elements were concerned with sustainability, and how future policy should be developed.

As explained in the chapter on the theoretical framework, the researcher suggested that the sustainability of Korean social enterprise was influenced by structural and agency factors. Structural drivers included the social economy, market type and government policy, while agency elements comprised social entrepreneurs, employees, organizations, and finance. If the suggestions or assumptions proved correct, the researcher would be able to formulate recommendations on relevant policy modifications to boost the sustainability of social enterprises in the country.

Thus, the main purpose of the research was to explore how the sustainability of Korean social enterprise was affected by certain drivers. More specifically, understanding the connection between the sustainability of Korean social enterprises, and structural factors and agency factors was a prime aim of the research. Finding and suggesting policy implications or improvements was another critical purpose. To proceed with the research, the researcher found that the concept of sustainability had to be defined

clearly because, as mentioned in Chapter 3, the term had been used in various ways in different contexts. In particular, the researcher realized that the term was understood differently by policy makers and social entrepreneurs in the Korean context. Therefore, a research question about the sustainability of social enterprise that had not been considered as a line of inquiry at first emerged as a necessary question. Research purposes and questions were constituted as below.

### ***Research Purpose***

P1. To explore the various drivers influencing the sustainability of Korean social enterprise

P2. To examine the influences of these drivers on the sustainability of Korean social enterprise

P3. To suggest policy changes to improve the sustainability of Korean social enterprise

### ***Research Questions***

- ***Sustainability***

Q1. How is the concept of the sustainability of social enterprise understood in the Korean context?

- ***Factors influencing the sustainability of social enterprise***

Q2. Which factors influence the sustainability of Korean social enterprise?

Q3. How do structural factors (social economy, market type and government policy) impact on the sustainability of Korean social enterprise?

Q4. How do agency factors (social entrepreneurs, employees, organizations and capital) impact on the sustainability of Korean social enterprise?

- ***Social enterprise promotion policy***

Q5. How efficient has Korean social enterprise promotion policy been in terms of improving sustainability?

Q6. In what directions do the actors consider that social enterprise promotion policy needs to be developed?

### **4.3 Methodological Strategy**

#### **4.3.1 Research Philosophy**

In this section the researcher reveals the philosophical viewpoint that relates to the research strategy, data collection and analysis method. In the social science domain, there has existed an ardent debate concerning researchers' ontology, epistemology and their possible choice of research strategy between quantitative and qualitative methods. In this polarized argument, positivists stand on one side while interpretivists stand on the opposite side. The dispute between quantitative and qualitative camps can be attributed to the different paradigms in which the two streams are embedded (Morgan, 1998; Onwuegbuzie and Leech, 2005). According to Bryman (2008), proponents of the positivist paradigm insist on the application of natural science methods to social science, employing a quantitative approach to explain causal relationships. Scholars favouring the interpretivist paradigm, however, have the belief that there are clear differences between the objects of social science and those of natural science and attempt to understand the subjective meaning of social action by employing qualitative strategy. Certain social scientists in the two schools of thought believe in an 'incompatibility thesis', which means that quantitative and qualitative paradigms and methods cannot and must not be compatible (Howe, 1988). In other words, they believe that the positivist paradigm underlying quantitative strategy is not compatible

with the interpretivist paradigm supporting qualitative strategy, so the two strategies are incompatible.

### **Pragmatic Standpoint**

Regarding the conflicts, Rossman and Wilson (1985) categorized three groups of scholars whom they called 'purists', 'situationists' and 'pragmatists'. Purists argue that only a mono-method strategy is possible for social science, insisting that quantitative and qualitative strategies, which originate from the conflicting areas of ontology and epistemology, cannot be mixed (Onwuegbuzie and Leech, 2005). Situationists admit the value of both strategies, even though they also follow the mono-method study of purists. They consider that certain research questions need quantitative strategy, while other questions require qualitative strategy. Thus, a proper research strategy should be selected according to the characteristic of specific research questions. Unlike the above two groups, pragmatists contend that researchers should utilize all possible methods to answer research problems (Creswell et al., 2003), pointing to a misleading dualism between the two strategies (Newman and Benz, 1998). Therefore, pragmatists who follow a criterion of 'what works' rather than epistemological paradigms maintain that quantitative and qualitative strategies can be employed in a single research study. Based on pragmatism, Tashakkori and Teddlie (2002) argue that research questions should be considered as more important than

methods, theoretical frameworks, or philosophy. Thus, pragmatism is believed to be an appropriate paradigm by a number of researchers employing a mixed strategy.

The pragmatism that values research problems, consequences, and pluralism (Creswell, 2008) focuses on diverse approaches respecting objective and subjective knowledge (Hanson et al., 2005). The dichotomy based on paradigm difference has been denied by mixed-method researchers, who argue that the paradigms are not mutually exclusive (Newman and Benz, 1998), and that the philosophy of researchers does not inherently prefer specific methods (Hanson et al., 2005). An increasing number of researchers have employed the mixed strategy in social science and it is likely to be regarded as a legitimate and self-sufficient research strategy.

This researcher's philosophical position is in line with pragmatism and, as will be explained in the next section, he chose a mixed strategy to answer research questions, focusing on 'what works'. The researcher believes that better understanding of the sustainability of Korean social enterprise is possible when the positive sides of quantitative and qualitative approaches are employed at the same time (Onwuegbuzie and Leech, 2005). In addition the researcher hopes to generate more fruitful and relevant explanations by strategically mobilizing both quantitative and qualitative perspectives (Hanson et al., 2005; Johnson and Onwuegbuzie, 2004). The researcher constructed the research design simply regarding it as a tool to assist understanding (Howe, 1988) of the sustainability of Korean social enterprise.

Such a pragmatic standpoint points to similarities with a critical realist perspective. The researcher agrees with the opinion that worthy insights can be acquired from viewing various approaches rather than from limiting oneself to just one right perspective (Sarason et al., 2010). In its mixed approach, the research shares the perspective of critical realism, even if the philosophical assumptions and methodological approaches of the school are quite different from those of the structuration theory on which the researcher draws to construct his theoretical framework. When the point is narrowed to the methodology of the two camps, scholars of structuration theory focus on a qualitative approach, whilst researchers in critical realism think their stance is compatible with both the qualitative and quantitative approaches (Mole and Mole, 2010). Mole and Mole (2010) argue that Archer's (1995, 1982) critical realistic approach could employ quantitative methods in connection with qualitative methods in order to explore interactions between agency and structure. Archer's wide embrace of various methods to examine the social world corresponds to the researcher's stance, which includes a descriptive secondary analysis of numeric data and a qualitative analysis of words in interviews.

As Grix (2010) explains, scholars in the school have tried to connect understanding linked to qualitative strategy and explanation linked to quantitative strategy. According to critical realists, social science needs to advance further through an interpretive understanding, even though it can employ natural science methods to explain causality. Similarly, in this research both understanding and explanation are necessary to

produce richer answers to research questions regarding a complex social phenomenon, the sustainability of social enterprise.

#### **4.3.2 Mixed Strategy**

As discussed in the last section, based on a pragmatic viewpoint, the researcher selected a mixed-method strategy for the research. According to Johnson and Onwuegbuzie (2004, p. 17), a mixed strategy is ‘the class of research where the researcher mixes or combines quantitative and qualitative research techniques, methods, approaches, concepts or language into a single study’.

This strategy was appropriate for the research design for several reasons. First of all, the researcher could supply more fruitful understandings and explanations of the research topic by using and analysing both quantitative and qualitative data (Creswell, 2008; Hanson et al., 2005). Secondly, the researcher intended to generalize the results of a qualitative study to the research population, Korean social enterprises, and this generalization from the qualitative outcome could be supported by quantitative analysis (Silverman, 2000). Last but not least, there was a practical and personal reason, because the researcher, who was familiar with statistical data about Korean social enterprises from his position as a government official, believed he would have the chance to access data collected and held by the government. If the researcher could obtain the data, it would be quite useful in helping him to understand the profile of the



Korean social enterprise sector through analysing a quantitative source. For the above reasons, the researcher decided to include a quantitative strategy in his research design. The details of the quantitative data and the analysis of it will be delineated in the next section.

The mixed strategy, however, did not mean that the two strategies would be employed equally and in parallel. Priority would be given to qualitative strategy, and quantitative strategy would be utilized in a complementary approach. Research questions about the sustainability of Korean social enterprise and elements influencing the sustainability have rarely been studied in a qualitative way in Korea. In addition, a deeper conceptual understanding would be achieved, and exploratory research into the social phenomenon would be better carried out through a qualitative strategy (Creswell, 2008).

Following Morgan's (1998) classification of the mixed approach, this research design was close to representing a qualitative principal and quantitative preliminary model. As shown in Table 4-1, a priority-sequence model, Morgan classifies mixed methods into four categories, according to two criteria: priority decisions and sequence decisions.

Table 4-1) Complementary combinations of qualitative and quantitative research: the priority-sequence model

		Priority Decision	
		Principal Method: Quantitative	Principal Method: Qualitative
Complementary model: <i>Preliminary</i>	Sequence Decision	1. Qualitative preliminary (qual → Quantitative)	2. Quantitative preliminary (quan → Qualitative)
		3. Qualitative follow-up (Quantitative → qual)	4. Quantitative follow-up (Qualitative → quan)
Complementary model: <i>Follow-up</i>			

Source: Morgan (1998, p. 368)

#### 4.4 Research Design

##### 4.4.1 Descriptive Secondary Analysis of Data

As mentioned before, the researcher decided to employ a quantitative approach as a preliminary study for the research. The preliminary quantitative strategy was employed as a descriptive study to ascertain the current situation of Korean social enterprise. It was through the descriptive quantitative approach in particular that the researcher

intended to explore the structural context of the Korean social enterprise field. Among contextual features, the market dimension would principally be explored by the descriptive approach. Important numeric information on the number of social enterprises, their average size, and financial performance according to diverse market types, was acquired. This information would be useful for understanding the sustainability situation of Korean social enterprise as a whole, as well as for identifying the average sustainability level of organizations in various markets such as food manufacturing, senior care, education, cleaning, and recycling, in which the selected cases were operating.

Regarding the quantitative data source for the preliminary work, secondary data and information gathered by other scholars or institutes were considered first (Silverman, 2000). The Korean government holds extensive numerical data about social enterprises in the country, since every certified firm must submit business reports to the government twice a year, by the end of April and the end of October. The reports include essential information such as the organizations' size (employees), profits and social contribution. Based on the reports, the MOEL evaluates the annual performance of social enterprises, and publishes their findings.

The aggregated raw data of the business reports was judged necessary to the study, so the researcher asked the MOEL and the KOSEA to supply them. The MOEL, however, declined to make available the raw data insisting that they were classified and not open

to the public. The researcher was disappointed by the rejection as it seemed likely that the data would be accessible at first. Instead of supplying the aggregated raw data, the KOSEA, however, suggested that it provide processed data for the researcher's specific requests. For example, if the researcher created tables for the study in which it was necessary to insert data and sent them to the KOSEA, the agency would complete and return them. Besides the processed data, the researcher decided to use government research into the annual performance of social enterprises, which had been published since 2008. The outcome of the research would also have valuable numerical information that it would be possible to be use in the research.

As a result, the descriptive quantitative approach had to be implemented through descriptive secondary analysis of the KOSEA's responses to the researcher's requests and annual research studies by the government. As explained by Bryman (2008), even though the researcher cannot control the quality of secondary data, and is not familiar with them, and even though they do not contain certain key elements for the research, secondary information is still useful because it can save time and expense. Also, to date this data is likely to be one of the most reliable existing sources of statistical information in the field of Korean social enterprise research. The results of the descriptive secondary analysis of the data will be explained in Chapter 5.

#### **4.4.2 Case Study**

Researchers may choose their research design drawing on several strategies, such as experiment, longitudinal design, survey and case study, considering the type of study questions involved, the degree of the researcher's control over the subjects that are being studied, and whether the main interest is focused on contemporary issues or historical phenomena (Yin, 1989). Yin (1989) explains that case studies are generally selected if research questions are led by considerations of 'how' or 'why', if researchers do not have full control over the phenomena researched, or if contemporary events within the actual context are to be investigated. Oliver and Kandadi (2006) explain that the case study design is an appropriate option when researchers have to examine various factors and multiple dimensions of a topic.

When the characteristics of this research are examined, a case study design is possible and relevant. First of all, the purpose of the research is to explore and understand how the sustainability of Korean social enterprise is affected by various elements. Following this aim, the research questions are mainly led by 'how'. Secondly, contrary to an experimental design, the researcher cannot manipulate the subject, social enterprise. Instead of control over subject, in the case study, the researcher depends on various sources including documents, interviews and secondary data. Thirdly, the sustainability problem of Korean social enterprise is a totally current issue, so a number of experts, government officials and practitioners are wrestling with the matter.

Finally, as was confirmed in the previous sections on the theoretical framework and developing research questions, the multiple dimensions of factors influencing organizational sustainability should be examined in the research.

According to De Vaus (2001), theory must lead case studies, which can be categorised into theory testing and theory building research. Theory testing case studies and theory building case studies are different in that the former start from specific theories and end up with examining whether those theories work in the real world. The latter, by contrast, begin with simple questions or propositions and finish with more specific theories or propositions.

The study of the sustainability of Korean social enterprise could be categorized as theory building case research, so the researcher starts with a few questions and ends up with a formulated theory that can explain drivers affecting sustainability and the relationships between those elements and the organizational outcome.

## **4.5 Details of the Case Study**

### **4.5.1 Unit of Analysis**

As the object of research, a case can be defined as the unit of analysis (De Vaus, 2001).

Researchers collect data about a certain case as a unit of analysis and make efforts to understand it as a whole. Decisions as to the proper unit of analysis may be made when researchers define their basic study questions (Yin, 1989). Types of cases are so diverse that a number of units, such as people, marriages, families, organizations, government departments, decisions or time periods may be taken as cases (De Vaus, 2001). One important thing in choosing the unit of analysis is to define the precise time limits which explain the beginning and end of the cases for the research (Yin, 1989).

In this research, the units of analysis were Korean social enterprises that had been certified by the government. In terms of time span, they had to be in an operational situation while the research was proceeding. The concept of Korean social enterprise can be accepted as a formal and general concept by researchers because it is clearly defined in an Act (*Social Enterprise Promotion Act*, 2010). Using the formal concept of cases, it is possible to compare findings in the study with similar previous research (Yin, 1989).

The units of analysis for the study, Korean social enterprises, however, include multiple sub-unit levels to be examined. A social enterprise as a holistic entity, on the one hand, has general level characteristics as an organization, such as type, size, age, financial outcome or regional base. Each case, on the other hand, consists of sub-units of analysis including social entrepreneurs, staff and sometimes volunteers. Full

understanding about the case will be possible when researchers analyse these diverse sub-units as well as the holistic aspects of cases (De Vaus, 2001).

## **4.5.2 Case Selection**

### **4.5.2.1 Multiple Cases through Theoretical Sampling**

Regarding the number of cases, either a single case or multiple cases are possible in case study design (De Vaus, 2001; Eisenhardt, 1989; Yin, 1989). Yin (1989) explains that even though the number of cases is a matter of judgement, taking a multiple-case design is desirable because it is safer to have alternative cases than to possess just one case that may be proved to be an inappropriate selection during the research process, and because a multiple-case analysis may supply more substantial results. Similarly, De Vaus (2001) describes that multiple cases strategically chosen can produce more convincing and powerful result than a single case study does. In the present research, there is no special reason to select a single case study design that is purportedly less convincing than a multiple-case study design. Considering the inductive theory-building purpose of the research, multiple cases are essential (De Vaus, 2001).

Mason (2002, p. 120) emphasizes the importance of sampling and selection in qualitative research, defining it as ‘principles and procedures used to identify, choose, and gain access to relevant data sources from which researchers will generate data



using their methods'. The sampling and selection of cases is directly associated with generalization of research consequences. In quantitative research, the generalization is a basic purpose and it is accomplished by statistics and probability sampling. In a case study design mainly implemented using qualitative data, however, a purposive or theoretical sampling can be chosen instead of probability sampling, because on many occasions the statistical sampling procedure is unavailable or inappropriate (Silverman, 2000). In line with this reasoning, Flyvbjerg (2006) argues that choosing representative cases by probability sampling is not appropriate if the purpose is to collect as much data on research problems as possible. He believes that clarifying the deeper causes is usually more significant in social research and this type of insight is likely to be achieved by samples selected for their validity not by random samples.

According to Mason (2002) theoretical sampling means building a theoretically meaningful sample to study, because samples are selected on the basis of criteria or characteristics that aid the formation and examination of the researcher's theory. The strategic selection of a case or cases might improve the possibility of generalization from the result of a case study in social science (Flyvbjerg, 2006; Silverman, 2000).

Theoretically, in the present work, randomized sampling is possible, as the population of the study is clear and information on the population is not difficult to obtain. However it is not appropriate in this case, since the large number of cases necessary to ensure the representativeness of the sample through randomization could prevent the

researcher from conducting intensive analysis to access the deeper causes behind the research problem (Flyvbjerg, 2006; Mason, 2002), the sustainability of Korean social enterprise. Therefore, the researcher strategically selected six cases reflecting the theoretical framework explained in Chapter 3. The cases were chosen considering factors influencing the sustainability of Korean social enterprise as well as the limited time and budget resources of the researcher.

According to the researcher's theoretical stance, the group of cases contains diverse types of social enterprise in order to generate fruitful illumination of organizational sustainability. Thus, it embraces possibly sustainable social enterprises as well as seemingly unsustainable organizations. It consists not only of young organizations but also of old ones. It has cases operating in various industries, such as loan brokerage, education, restaurant, education, senior care and recycling. Finally, it involves three levels of organization in terms of employment scales.

#### **4.5.2.2 Criteria for Case Selection**

First of all, the researcher decided to choose six cases out of the 631 social enterprises found in Korea as of the end of 2011. Three organizations were selected from a group that consisted of possibly sustainable social enterprises, while another three were chosen out of a group likely to prove unsustainable. At this point the researcher had to operationalize the concept of sustainability for the research, as was mentioned in Chapter 3. In that chapter it was argued that sustainability could be defined as the state

of achieving an organization's social purpose as well as financial viability. However, it is necessary to be more specific about what the phrases 'financial viability' and 'achieving social purposes' mean.

Regarding financial viability, the researcher suggests that sustainable organizations should realize positive business profits during most of their period of operation. There are several possible indicators for evaluating the financial performance of companies. Reviewing a financial report on Korean social enterprises, we can find several items about profit: gross margin, business profits and net profits. Looking at these, the researcher agree with most of the Korean literature (Gwak, 2010; Jeon et al., 2012) that selects business profits as an indicator of economic performance. Gross margin does not reflect business costs such as labour and PR costs, while net profits include non-business income and costs, for example government subsidies or private donations. Therefore, the researcher focuses on business profits because they are a comparatively appropriate indicator that reflects organizations' business activities.

The definition of 'most of their business periods' is more complicated and hard to find a relevant standard for. So, if certain cases showed negative business profits in any one year out of three years from 2009 to 2011, then the researcher operationalized the organization as financially unviable.

With regard to the achievement of social purpose, all certified social enterprises must satisfy legal requirements of social contribution. For instance, a social service

provision type of social enterprise must supply at least 30% of total goods and services produced to the disadvantaged, while for a job creation type at least 30% of all employees must be the disadvantaged. Mixed-type organizations must supply at least 20% of their social services to the disadvantaged, as well as having at least 20% of their workforce composed of the disadvantaged. If they cannot meet this requirement, the government can cancel their certification. Considering the legal requirements, the researcher accepted that if a certain social enterprise satisfied the conditions for certification, then the organization could be operationalized as achieving its social purpose.

As referred to above, the researcher assumed that social enterprises satisfying the above two conditions at the same time were sustainable. Organizations that could not meet one of the two criteria could be categorized as less sustainable. Looking at Table 4-2, group A was regarded as sustainable while groups B, C and D were less sustainable. As a result, three cases were selected from sustainable group A and three cases were chosen from less sustainable groups B, C and D. In reality, most social enterprises are placed in the A and C categories because B and D type organizations are likely to lose social enterprise status through government cancellation of their certification.

Table 4-2) Models of social enterprises according to social and financial outcome

		Social Outcome	
		Meeting, or more than, legal requirement	Failing to meet legal requirement
Business Profits	+	Sustainable (A) (Innovative model)	Less sustainable (B) (Quasi-private company model)
	-	Less sustainable (C) (Quasi-public company model)	Less sustainable (D) (Incompetent model)

Second, each of the six social enterprises was selected in one region, Seoul, out of 14 metropolitan cities and provinces. Considering its geographical location and the fact that the largest number of social enterprises, 108 out of a national total 491 in 2010, Seoul was the best place for the researcher to select valid cases and access them for interviews.

Third, it was decided that it would be a good strategy to select organizations of various ages. Thus it was planned that each of the sustainable and unsustainable social enterprise groups would include three organizations made up of one younger than two years old, one between two and four years old, and one more than four years old.

Fourth, the researcher intended to select organizations in diverse industries as cases. Korean social enterprises operate in various industries, such as manufacturing, social welfare, senior care, food production, recycling, education, and cleaning. Different narratives of sustainability could be expected according to the different industries.

Finally, the scale of social enterprises as employers was used as a criterion for choosing cases for this study. The average number of employees of social enterprises was 25.5 people in 2011 (Jeon et al., 2012). The number of people employed in 70.4% of social enterprises was fewer than 30 in 2010, while 29.6% of these organizations employed at least 30 workers (Gwak, 2011). Taking account of these statistics, each group of three sustainable and unsustainable social enterprises has one organization that employs fewer than 25 workers, one that employs 25 to 50, and one that employs more than 50. Using the above five criteria, a matrix of cases can be drawn up as shown in Table 4-3.

Table 4-3) Ideal sample cases selected in Seoul (examples)

	Sustainability	Period of operation	Business type	No. of employees
Case 1	Sustainable	2-year	Social welfare	70
Case 2		5-year	Senior care service	30
Case 3		1-year	Catering	7
Case 4	Less sustainable	3-year	Cleaning	9
Case 5		5-year	Recycling	28
Case 6		2-year	Education	120

A set of five criteria for selecting cases is theoretically and relatively ideal, but it was not possible to be sure whether cases matching these criteria were enough or not, because the researcher could not access the raw data including the relevant information. Therefore, the researcher sent the strategy for sampling to the KOSEA and requested that the organization recommend cases that best met the conditions.

One important aspect that had to be considered at this stage was whether or not the prospective cases would agree to become cases in the research, even though they satisfied the criteria. The KOSEA reported difficulties in persuading possible cases to join the research, because a number of organizations were reluctant to become the subject of a particular study. The researcher was told that social enterprises were bothered by the increasing number of surveys and interviews being conducted by the government, the KOSEA and other individual researchers. For this practical reason, the KOSEA could not recommend enough potential cases, and only provided six social enterprises, so the researcher's possibility of case selection was limited as well. Having carefully reviewed the prospective case list, the researcher removed one company from the list and asked the KOSEA to find another relevant case. In the end, through this modification, the researcher fixed on six cases in May 2013.

When appropriate cases were being sought, the criteria had to be applied in a flexible way, because it was very difficult to find cases that matched the conditions perfectly. Therefore, a few organizations that partly matched the criteria had to be included in the cases. For example, one case that showed negative business profits in 2011 was placed in the possibly sustainable group considering it realized positive business profits for two consecutive two years in 2009 and 2010. To find cases satisfying the condition relating to operating periods was not an easy task either. Thus diverse organizations in terms of their age were selected as cases, even though they did not match the ideal criteria perfectly. One case had to be selected in Kyunggi province, near Seoul and two

companies in a senior care service industry should be selected. General information on the cases according to the case selection criteria is shown in Table 4-4. Organizations in a possibly sustainable group could be an ‘innovative model’, as shown in Table 4-2, while social enterprises in a less sustainable group could be categorized as a ‘quasi-public company model’. Details about the selected cases can be found in Chapter 6.

As shown in Table 4-4, the researcher selected one more organization as a pilot case. Through the pilot case, the researcher intended to improve the validity and relevance of the interview questions as the whole. Necessary skills, attitudes and possible problems were checked by the pilot stage as well. Details of the procedure and the lessons of the pilot study will be provided in the later sections of this chapter.



Table 4-4) General information on selected cases (2011)

	Sun	Mercury	Venus	Mars	Jupiter	Saturn	Moon (Pilot Case)
Sustainability	Possibly Sustainable			Possibly Unsustainable			
- Social Purpose Achievement	Meet	Meet	Meet	Meet	Meet	Meet	Meet
- Business profits (2009-2011)	+	+	2011: - 2010 & 2009: +	2011 & 2010: - 2009: +	2011: + 2010 & 2009: -	2011 & 2010: - 2009: +	2011 & 2010: - 2009: +
Place	Seoul	Seoul	Seoul	Seoul	Kyunggi	Seoul	Kyunggi
Start-up (Certified as social enterprise)	2005 (2010)	2001 (2008)	2007 (2010)	2007 (2008)	1999 (2010)	2002 (2007)	2002 (2007)

### **4.5.3 Data Collection**

#### **4.5.3.1 Documents, Archival Records and Interviews**

Any kind of data collection methods can be employed within case studies, so researchers use experiments, surveys, interviews and documentation if they are practical and ethical for the research (De Vaus, 2001). Yin (1989, p. 85) suggests that the six most frequently employed methods of data collection in case studies are: ‘documentation, archival records, interviews, direct observation, participant-observation, and physical artifacts’.

In this research, documentation, archival records and interviews were employed as data collection methods. Through his limited observations, the researcher was able to catch a little bit of the organizational culture or atmosphere. Based on observation in the locations of the interviews, the researcher took note of staff’s attitudes toward general managers, the communication between them, and the climate of companies. Deeper and more extensive observation, however, was difficult for the researcher considering the limited time and resources.

One of the most important pieces of documentation in the study was the annual report of each social enterprise selected as a case. Before beginning the interviews, the reports, which were supplied through the kind cooperation of the KOSEA, were thoroughly examined. Publications including books providing an overview of social enterprise, social enterprise

magazines published by the KOSEA, and pamphlets produced by the selected companies were also reviewed comprehensively in advance of the fieldwork. Various archival records found on the home pages of each social enterprise, the KOSEA and the MOEL were carefully examined as well. In addition, unpublished government documents about social enterprise policy and related legislation as well as official documents, were extensively explored to feed into the interview questions and theoretical development.

#### **4.5.3.2 Semi-Structured Interviews**

Interviews are considered an attractive data collection method by a great number of qualitative researchers because of their flexibility (Bryman, 2008). According to Bryman unstructured interviews and semi-structured interviews are often employed in qualitative research even though a large variety of interview approaches are possible. The scholar explains that semi-structured interviews may have interview guides that include a list of questions, while unstructured interviews are likely to consist of a single stimulus question that researchers ask. Semi-structured interviews provide helpful prompts and a clear focus for researchers' interests (Gillham, 2001). At the same time, researchers can change the content of individual questions and their order depending on how the interview develops.

In the research, the researcher employed a semi-structured interview to collect textual data according to its usefulness for the study. The research had its specific focus and clear theoretical framework to be concentrated on the interview process. In addition, the study's multiple-case design meant the cases needed to be compared with each other. On these

occasions, semi-structured interviews are preferred by researchers over unstructured ones (Bryman, 2008). Therefore, the researcher selected semi-structured interviews in which a series of questions were put to the interviewees across the various cases, while the questions were open-ended as well.

### **Categories and the Number of Interviewees**

A well-organized case study accomplishes more complex and more profound understanding through analysing data from the diverse levels of the constituent elements of cases (De Vaus, 2001). In the research, the sustainability of Korean social enterprise could be understood far better when related information was collected from different sources, such as social entrepreneurs, paid workers and volunteers in the organizations. The researcher planned to interview one social entrepreneur, one member of staff and one volunteer in each case for as long as it was possible. Therefore a maximum of 18 people from three types of position were expected to be interviewees. In the group of social entrepreneurs, managers who identified themselves as social entrepreneurs in the selected cases were interviewed. With regard to the paid worker and volunteer categories, the researcher asked a manager from each case whether he could interview experienced people who knew their organizations very well.

When it came to putting the interviews into practice, however, the planned composition of interviewees could not be fulfilled, because of the situations of the companies. For example, only one volunteer was interviewed, as the researcher could not find enough volunteers who would agree to be interviewed. Therefore, the researcher interviewed additional managers or

members of staff instead of volunteers in three cases out of the six. In two cases, the researcher was able to interview just two people instead of the originally planned three interviewees. To sum up, the total number of interviewees was 16 and the composition of interviewees was seven managers, eight members of staff and one volunteer. As shown in Table 4-5, the researcher interviewed two further social entrepreneurs for the pilot study.

Table 4-5) Number and composition of interviewees

	<b>Social entrepreneur</b>	<b>Staff</b>	<b>Volunteer</b>	<b>Total</b>
<b>Sun</b>	2 people	1	0	3
<b>Mercury</b>	1	2	0	3
<b>Venus</b>	1	1	0	2
<b>Mars</b>	1	1	1	3
<b>Jupiter</b>	1	2	0	3
<b>Saturn</b>	1	1	0	2
<b>Total</b>	7	8	1	16
<b>(Moon)</b>	(2)	0	0	(2)

## **A Case Study Protocol**

In advance of undertaking interviews, the researcher drew up a case study protocol that included a framework for the case study, fieldwork processes and interview questions. A well designed case study protocol can contribute to improving the reliability of the case study as well as guiding researchers in conducting data collection, particularly during fieldwork (Yin, 1989).

The protocol was reviewed several times through supervision meetings, advice from Korean experts and pilot interviews with Korean students at the University of Birmingham. In

particular, in order to improve the validity of potential interview questions, the draft protocol was sent to three Korean stakeholders: one scholar, one former government official and one expert in the KOSEA. The researcher had associated with these stakeholders since 2010, when he was put in charge of social enterprise policy in the OP. Based mainly on the advice of supervisors and these Korean experts, interview questions were prepared in April 2013.

Once the cases were selected and the case protocol was prepared, the researcher contacted people in the companies selected to make an appointment for data collection. Appointments with interviewees were fixed up through several phone calls and emails. In the emails, the researcher gave an overview of the research topic, the purpose of the research, and his identity, as well as a broad indication of the questions that would be asked. Gratitude was expressed to the potential interviewees and they were assured that there would be no adverse effects of joining the research.

### **Actual Process of the Interviews**

The researcher conducted 18 face-to-face interviews (including two pilot interviews) on seven cases (including one pilot case) in June 2013 in Korea. He organized and confirmed every interview schedule in advance through email and phone calls with informants. Each interviewee was given a tiny gift prepared in the UK. In the interview sessions conducted in each company, the investigator asked 20 to 25 questions of respondents, and the sessions usually took about one and a half hours but could take anywhere between half an hour and

three hours, at a point between 9 am and 6 pm. Interview questions, which were generated according to an order that covered the topic areas, were unfolded according to the focused factors of the theoretical framework. Questions about the interviewee's profile, which were valuable to contextualize the interviewee's words, were posed at an early stage in each interview (Bryman, 2008). Then asking the interviewee's opinion on the sustainability of Korean social enterprise followed questions about the interviewee's background. Questions then moved to other topics, such as the relationship between organizational sustainability and the social economy, market types, government policy, human agency, organization, and capital. However, in these semi-structured interviews, the line of conversation did not just stay within the prepared questions, so when the questioner heard interesting answers that were still related to the sustainability of social enterprise, the new topic continued for a while. Not only could this approach motivate respondents to advance into topic areas that they thought significant but it also could keep the consistency of topics across interviews (Dunford and Jones, 2000).

All conversations in interviews were recorded with a digital voice recorder with the consent of respondents. In addition, the investigator wrote down information about organizations' atmosphere, the impression they made, the context of specific responses and even particular gestures of interviewees in his research notes in order to make up for possible inaccuracies in the recorded conversations (Silverman, 2000). Returning to the UK after the fieldwork in Korea, the researcher started transcribing each recorded interview file, word by word. First, the researcher transcribed the recorded files of the three social entrepreneur respondents, and

analysed this data in July 2013. With the findings from the early analysis of the information from the three social entrepreneurs, the researcher took a supervision meeting and discussed this information. Repeating the process of transcribing, analysing and supervision meetings, the draft of the data analysis was completed in December 2013. The transcribing was supplemented by points in a research note because on certain occasions the researcher could not remember the exact contextual line of the conversation. The questioner maintained his relationship with respondents through email and telephone calls to thank them for supplying valuable opinions in the conversations and to take the interviews further. He contacted them repeatedly when faced with sections of recorded conversations about which he was vague, or when he came up with further questions, mainly in the transcription stage. The transcripts were sent to the interviewees to confirm the factual accuracy of the conversations and the researcher revised them according to the replies.

#### **4.5.3.3 Pilot Interview and Achievements**

This section will discuss the pilot interviews that were carried out prior to the main interviews in Korea. Through the pilot interviews, the investigator intended to check the relevance of the questions in terms of their content and quantity (Yin, 1989). Several important sub-topics or unexpected points on which the researcher needed to focus were expected to appear at the pilot interview stage. The researcher believed that some advice that would be relevant for the data collection would be given by pilot interviewees, since they were experienced practitioners in the social enterprise field. Moreover, the researcher



anticipated testing necessary techniques such as the skills of asking questions and listening, taking notes, and handling a digital voice recorder.

### **Conducting Pilot Interviews**

According to Yin (1989), pilot cases can be selected according to accessibility, convenience and geographical closeness. As referred to in the previous section, one pilot case was selected and two social entrepreneurs in the company interviewed just before the main data collection stage. The researcher selected Moon as a case for the pilot study for several reasons. First of all, the researcher had experience of cooperating with the CEO of this social enterprise, Mr. Junki Lee, to modify social enterprise policy in 2010. The social entrepreneur of Moon agreed to participate in the research without any hesitation when the researcher asked him to join the research as a pilot interviewee. Second, the company was certified as a social enterprise in 2007, at a very early stage in Korean social enterprise history. Therefore, the investigator guessed that this social enterprise had a rich fund of information about sustainability. Third, the CEO of Moon had abundant knowledge of social enterprises, the social economy and government policy as he had started his career as a social worker more than ten years previously and had participated actively in the policy-making process. Finally, the location of the company was Kyunggi province, near Seoul, so the physical proximity was satisfactory for the researcher.

Two pilot interviews were undertaken at the office of Moon from 14.00 to 18.40 on 7<sup>th</sup> June in 2013. The first interview was carried out with Junki for three hours; then the second one

was undertaken for one hour and forty minutes with the co-president of the company, whom Junki introduced to the questioner as a participant in the pilot. In the interviews, not only did the questioner follow exactly the same procedure as in the main interviews, but he also asked all his prepared questions. After the interviews, the interviewer and the interviewees discussed the relevance of the questions, the number of hours taken, the interviewer's questioning and listening skills, and his attitude, and what improvements were necessary for the main interview phase.

### **Improvements as a Result of the Pilot Interview**

First of all, the researcher decided to supplement the interview guide with additional information to help the interviewees understand the questions more easily. Interviewees in the pilot conversations advised that certain concepts needed to be clarified by the interviewer. According to them, such words as social economy and organizational culture needed supplementary explanations from the interviewer if fluid conversations were to be encouraged. Interviewees in the pilot conversations argued that respondents, particularly those from for-profit backgrounds, or employees, might have no idea about the concept of the social economy. In addition, when the interviewer referred to organizational culture, they did not understand exactly what the word meant, as it could be understood too broadly. Considering these recommendations, the questioner added introductory remarks about the social economy in the interview guide. As regarded organizational culture, the interviewer tried to clarify it by employing other words, such as democratic decision-making, openness,

organizational atmosphere, or relationship between managers and staff.

Secondly, the researcher found that the interview took too long if all the questions prepared were asked. As mentioned, the first pilot interview in which the interviewer went through every question took three hours of the interviewee's time. To complete each interview within two hours the researcher revised the interview questions by removing overlapping parts and relatively unimportant items.

Thirdly, the researcher picked up on a new point that he had not taken into account in the research preparation period. In the pilot interview, interviewees based in NPOs occasionally revealed strong criticism of social entrepreneurs based in the for-profit sector. From the conversations with the pilot respondents, the interviewer realized that there existed conflicts between the two different groups of social entrepreneurs: NPO social entrepreneurs and for-profit social entrepreneurs. These conflicts would have to be taken account of in considering the interviews, because it would be useful to understand respondents' remarks and the interviewer would need to indicate his neutral position when he encountered that kind of conflict.

Fourth, the importance of establishing a close rapport with informants in the interviews could not be over emphasized. As explained before, the first interviewee was an acquaintance, so the interviewer did not feel that special efforts to create rapport were needed. The interview with Junki was conducted in a particularly friendly atmosphere, without any need for a long preamble, while in the second interview the researcher had to

take time to establish a smooth atmosphere. From this experience the interviewer learned that he should focus on forming a friendly relationship at the beginning of interviews through talking about light issues or giving small prepared presents.

Lastly, the pilot interviews were useful because the interviewer could apply his practical interviewing techniques. He had an opportunity to take notes of possibly meaningful remarks, gestures and the atmosphere of the interview. In addition, using the digital voice recorder in a real situation for a long time was an important experience. At certain points in the pilot interview sessions, he had to stop the recorder and re-start it because there were a few interruptions caused by important phone calls to the respondents. In addition, in the second interview, the interviewer realized that the battery for the recorder had run out faster than he expected. The researcher had to stop the interview for a moment, and record the conversation using a mobile phone instead of the digital recorder. Having full knowledge of how to use this electronic device and having extra batteries prepared were important issues that could not be underestimated.

#### **4.5.3.4 Ethical Considerations**

In the entire research process, researchers must take ethical issues into account because the issues likely to occur at any point of the study could affect the integrity of an academic achievement (Bryman, 2008). According to Stanley and Wise (2010) participants must be clearly informed of the purpose, method and any risk of certain activities of research. In addition, the anonymity, confidentiality and safety of all participants have to be carefully

protected and maintained by researchers. Willing participation of people and their right to leave the research at any point must be guaranteed.

The researcher took full consideration of ethical issues in the research, including in the pilot interviews. First of all, emails to recruit interviewees were sent to potential participants, so that all interviews were implemented after the voluntary agreement of the interviewees. The letters described the identity of the researcher as well as the purpose and focus of the research and the key questions in the interview. It also made clear that participation in interviews was completely voluntary.

Second, the interviewer prepared interview consent forms so that all the interviewees could read them thoroughly and sign them if they wished to participate. The consent forms declared that all the interviewees were taking part in the conversations voluntarily and could leave the interviews at any time if they wanted to, that the participants and social enterprises would be given complete anonymity, and that all data obtained in the interviews would be kept safe and confidential. Moreover, the forms emphasised that there would be no any risk to the participants in the process of the interviews.

Finally, the researcher endeavoured to prevent any psychological damage to the respondents from the interviews by avoiding any question likely to hurt people's feelings. In addition, the interview scripts including respondents' actual names and the data collected were protected in a secure place in order to rule out any unapproved access (De Vaus, 2001).

#### **4.5.4 Data Analysis**

This section explains the researcher's data analysis strategy for qualitative interviews. The data analysis can be broadly divided into two categories: the data organizing process and the interpretation of the organized data. The data organizing of the qualitative information was conducted with a coding or indexing procedure employing computer software suitable for qualitative data, Nvivo 10, while the interpreting of organized data was undertaken from a narrative perspective. While the two categories seem to be separate, the line between sorting data and building interpretation is unclear and to some extent the two tasks are carried out at the same time (Mason, 2002).

##### **4.5.4.1 Data Organization**

As explained in the last section, all recorded interviews were fully transcribed. It took a great deal of time to transcribe every interview - roughly three to four times the actual length of the interview. The procedure, however, was valuable for the researcher because he could recognize entire narratives provided by the interviewees, identify different ideas about the same topic according to different groups of respondents, and detect unclear lines of conversation that could be pursued later.

The researcher had read the transcripts carefully several times before he started organizing the data. The reading was literal, interpretive and reflexive at the same time in order to identify literal content and style, potential themes, implicit meanings, and possible

interpretation (Mason, 2002). Concurrently, he examined his field notes and other necessary documents in order to supplement his understanding of the interview scripts. In the process of reading ‘through or beyond the data’ (Mason, 2002, p. 149), he took notes on interesting, new and important issues or remarks (Bryman, 2008) and these were taken into account at the indexing stage.

Indexing or coding had been considered an important starting point for data analysis by a number of qualitative researchers (Bryman, 2008). The researcher developed a cross-sectional and categorical indexing system to have a consistent coding system applicable to whole interview scripts. The researcher chose to use the cross-sectional indexing system for several reasons. First of all, he needed to consider the characteristics of the main data derived from texts. If he had had a number of visual materials, the usefulness of the indexing and retrieval idea might have been limited. Secondly, the researcher hoped to have a systematic outline of his data, so as to recognize its coverage and scope, and this would be delineated with the indexing categories created (Mason, 2002). In addition, with the indexing system, he expected to place and to retrieve in a sequential manner various events, stories, information, instances or themes that were not easily identified in the data. The indexing system was gradually constituted on the basis of the on-going process of data organization. The researcher repeated his reading and study of the data and recollected the actual process of the data-gathering situations until he became as familiar with the data as possible. In the coding procedure, the researcher should ensure that the categories produced are appropriate for answering his research interests. So as not to digress from his research focus in the

production of coding, this researcher had to move back and forth between a data set and his research questions or the theoretical framework. The researcher should continue the indexing by categories, modifying the elements and structure of this in the whole process of data organization.

The stage described above was carried out employing computer software that could assist qualitative data analysis, Nvivo 10. Following Welsh's (2002) advice, the researcher chose a software package based on the recommendations of an experienced colleague who had nearly completed his qualitative PhD research at that time. The software was easily accessible by downloading from the University of Birmingham website as well as simple to learn how to use.

The researcher took a short Nvivo class in the University to become familiar with the package before he came to the coding stage. He imported external Word files of interview transcripts into Nvivo and coded the files at nodes seen on the computer screen. Using coding stripes and the highlighting function of the software he could easily identify the usage and location of every code employed. The function of 'memo' was useful, so the researcher took memos about potential themes, interesting stories and additional questions to be put to respondents. He could retrieve fragmented and widely distributed stories about the same topic into one segment, and then he could connect and interpret them as a whole.



#### **4.5.4.2 Narrative Approach**

As explained by Barthes and Duisit (1975), without any exceptions, people at any time and place, and in any society, have used an infinite variety of narratives carried by verbal or printed language, still or moving pictures, gesture and the systematic mixture of these. These narratives exist in 'myth, legend, fables, tales, short stories, epics, history, drama, comedy, painting, stained glass windows, films, local news, conversation' and so on (Barthes and Duisit, 1975, p. 237). Spector-Mersel (2010) explains that narrative has expanded widely in human science, and the notion that every person, organization and group has their own story has become commonly accepted. Narrative inquiry, in which only folklorists were interested in the nineteenth century, has penetrated all social studies, including psychology, sociology, cultural studies - and particularly organizational research - since the twentieth century (Gabriel, 2000; Spector-Mersel, 2010). Czarniawska (2000) argues that researchers must understand narrative because it is a principal source of knowledge in society, the most usual mode of describing social life, and a common type of communication.

In the narrative approach to organization study, storytelling methods have shaped a large amount of fruitful knowledge (Rhodes and Brown, 2005). Boje (1991) maintains that narrative in organizations is regarded as the favoured sense-making manner of social interaction between people who have a relationship with each other. According to him, not only the growing modification of stories with new episodes but also the continuing reinterpretation of old stories is carried out in organizations. From a narrative perspective,

organizations suggest that these are socially created phenomena (Currie and Brown, 2003).

Narratives can be defined as ‘the telling of a story derived from the Latin *narre*, to make known, or convey information’ (Wiles et al., 2005, p. 90). This implies that narrative includes events and their conclusions, or the connection between events and other events. Even though plots, characters and events are likely to be found in certain narratives, only fragments of stories and odds and ends heard everywhere are common in organizational narratives (Boje, 1991; Currie and Brown, 2003).

Basically the analysis of the case study draws on the narrative perspective, which is appropriate for understanding organizational sustainability, which is believed to have various and complex characteristics (Currie and Brown, 2003). The researcher also considered Korean situations, in which the narrative approach to research into social enterprise topics had hardly been found at that point.

Even though there are several types of analytic approach to narrative, the researcher tried to identify meaningful themes from various narratives provided by respondents. In finding themes, the research focused more on different stories according to different groups of interviewees, in other words diverse or conflicting narratives provided by groups of social entrepreneurs and staff, or groups of social entrepreneurs based in NPOs and those based in for-profit organizations. The approach has similarities with a dramatization analysis employed to display different narratives according to various social groups focusing on different aspects of stories (Wiles et al., 2005).

In addition the researcher was aware of formal structural approaches to the analysis of narrative. According to Labov (1972), fully structured narrative types may have six structural elements: ‘abstract, orientation, complicating action, evaluation, resolution and coda’ (Labov, 1972, p. 363). According to the author, among these elements the most important two are complicating action and evaluation, and the former is about what happened, while the latter about ‘so what?’ (See Table 4-6).

Table 4-6) Labov's elements of fully formed narrative

Abstract (A)	Frames the story, what this is about
Orientation (O)	Sets the stage, explains when, who, what and where
Complicating Action (CA)	The turning point, crisis, problem or series of these
Evaluation (E)	Conveys how the narrator would like us to interpret the meaning and importance of the story, the point or ‘soul’ of the narrative
Resolution (R)	The result or outcome
Coda (C)	Returns the audience to the present moment

Source: Wiles et al. (2005, p. 91)

When faced with relatively developed stories, drawing on Labov’s structural approach, the researcher identified the six elements in interview conversations. With this approach the researcher was able to examine and understand stories in interviews more meticulously (Wiles et al., 2005). Unlike Wiles et al. (2005), who indicated the structural elements on interview scripts themselves, this research marks Labov’s elements on the lines of the

narratives constructed by the researcher<sup>4</sup>.

Moreover, the significance of the aural features such as pause and pace was not overlooked in the data interpretation. Gesture and facial expression representing people's feelings of criticism, rage or pride were reflected in the analysis.

As Boje (1991) pointed out, however, most stories in interviews consisted of fragments appearing here and there, with little cohesion. The researcher needed to construct narratives with the narrative fragments (Currie and Brown, 2003) and place them under several themes relevant to answering his research questions.

The narrative analysis of the research was relevant in terms of both internal and external validity. On the one hand, internal validity, which means 'the degree to which findings correctly map the phenomenon in question' (Denzin and Lincoln, 1994 cited in Silverman, 2000, p. 91), can be improved by narrative as respondents have the power to supply more specific and detailed information or experience about the research topic, employing their own words and framework (Elliott, 2005). On the other hand, following Denzin and Lincoln's opinion, external validity can be defined as 'the degree to which findings can be generalized to settings similar to the one in which the study occurred' (Silverman, 2000, p.

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<sup>4</sup> See appendix 4 to find an example that the researcher constructed a narrative using Labov's elements.

91). The narratives of respondents include not only their individual experience but also their understanding of intersubjective meanings, which means socially shaped practices through which individuals understand the culture of their community (Elliott, 2005). According to the author, intersubjective meanings can be understood through careful analysis of narrative, so the researcher can improve the external validity of research by showing how commonly a community shares intersubjective meanings.

## **4.6 Conclusion**

This chapter has explained the methodological approach for the study of the sustainability of Korean social enterprise. With the research purposes, the literature review and the researcher's theoretical framework, six research questions were first formulated. To explore the research questions, a mixed strategy was adopted based on the pragmatic viewpoint. The descriptive analysis of secondary data was conducted with numerical data supplied by the KOSEA and analysis of annual performance research by the MOEL to understand the structural context of the Korean social enterprise domain, especially the situations existing in various social enterprise industries. The case study was presented as the main research tool to explore the research questions. Regarding the analysis of interview texts in the case studies, narrative perspective was employed to produce more fruitful and valid understanding of the sustainability of Korean social enterprise. The following two chapters will show the results of the descriptive analysis and the case studies.

## **CHAPTER 5      STRUCTURAL CONTEXT IN KOREA**

### **5.1 Introduction**

As the researcher argued in the discussion of the theoretical framework in Chapter 3, core structural factors influencing the sustainability of Korean social enterprise could be the social economy, market type and government policy. Exploring these structural factors in the research was essential because, as rules and resources, in Giddens' words, they would form the conditions for social enterprise activities.

This chapter will describe three structural factors before answers are sought to the research questions through the case studies. The purpose of the chapter is to understand the structural context of Korean social enterprise. Therefore, the social economy, market type and government policy will be discussed one by one.

In the first section, which deals with the context of the social economy, academic approaches to understanding the social economy that is often regarded as the third sector or the non-profit sector are introduced. Then the Korean social economy will be explained according to its history, its definition by researchers in the country, organizations in the domain, and its relationship with the sustainability of social enterprise.

Regarding market type, as the researcher mentioned in the methodology chapter, descriptive

secondary analysis of data was conducted. Mainly using data from the KOSEA and Gwak's research (2011), the researcher will categorize social enterprise markets, then show the number of organizations, average employment size and financial results according to various industries. In the last part of the section, the researcher will roughly estimate the sustainability situation of Korean social enterprise applying the researcher's evaluation criteria he decided on.

Social enterprise promotion policy in the country has significantly contributed to the growth of the sector, so the development strategy is often said to represent a government-led or top-down model (H.-W. Kim, 2011b; Moon, 2012; Ryu, 2011). It can be said that the policy context in Korea is a typical factor that supplies 'rules and resources' to social enterprise. The section on policy context will describe this essential structural driver, explaining a certification system and important individual programs to promote social enterprise.

## **5.2 Social Economy Context**

Peattie and Morley (2007) emphasize the importance of social economy, maintaining that the international diversity of social enterprise reflects differences in the growth of the sector as well as in levels of social and economic development and legal frameworks. In the context of Korean social enterprises, more than 50% of the certified social enterprises have been

established by social economy organizations such as non-profits or cooperatives (*Social Enterprise Guide Book*, 2012).

As argued in the researcher's comprehensive framework for analysing the relationship between various factors and the sustainability of social enterprise, the social economy can be regarded as one of the most significant elements to influence organizational sustainability.

### **5.2.1 Social Economy or Non-profit Sector**

There are two theoretical approaches to examining third sector initiatives that represent organizations and their activities that are neither in the public sector nor in the for-profit sector. These two approaches, embedded in the tradition and history of a country, are the social economy approach in European countries and the non-profit sector approach, especially in the USA (Defourny, 2001b; Evers and Laville, 2004).

#### **Social Economy Approach**

In continental Europe and other parts of the world, such as Latin European countries, the third sector is regarded as a similar concept to the social economy. Moulaert and Ailenei (2005) explain that the term 'third sector' was an English translation of the French idea of *économie sociale* used to identify the area between the state and the market, as well as to include all voluntary organizations and their activities.



In spite of its origins in ancient forms of human association (Defourny et al., 2000), Gueslin (cited by Moulaert and Ailenei, 2005) writes that the concept of social economy was invented in the nineteenth century. The term, often used to mean the same as the non-profit sector or the third sector, was used for the first time in France, by Charles Dunoyer, in economic literature in 1830, and it was used to advocate a moral perspective on economics (Chaves and Monzón, 2011). Historically, well-known associations, cooperatives and mutual societies were founded in the nineteenth century by movements of working class people who were eager to obtain better living and labour conditions. Chaves and Monzón (2011) refer to those famous organizations as essential pillars in constituting the social economy.

According to Defourny (2001b), the social economy is defined as economic activities by cooperative enterprises, mutual societies and associations that share similar ethical positions. The shared principles are:

- The aim of serving members or the community rather than the generation of profit
- An independent management
- A democratic decision-making process
- The primacy of people and labour over capital in the distribution of income

(Defourny, 2001b, p. 7)

Similarly, Moulaert and Ailenei (2005) discuss the social economy that covers voluntary organizations, non-profit bodies, and cooperative enterprises that are independent of the state and conduct their economic activities to achieve social goals that the market fails to achieve.

The definition in the Social Economy Charter (2002) by the European Standing Conference on Cooperatives, Mutual Societies, Associations and Foundations (CEP-CMAF) describes the more specific principles of the social economy as follows:

- The primacy of the individual and the social objective over capital
- Voluntary and open membership
- Democratic control by the membership
- The combination of the interests of members/users and/or the general interest
- The defence and application of the principle of solidarity and responsibility
- Autonomous management and independence from public authorities
- The essential surplus is used to carry out sustainable development objectives, services of interest to members or of general interest.

(Chaves and Monzón, 2011, pp. 8–9)

### **Non-profit Sector Approach**

In the Anglo-Saxon world, the term ‘third sector’ is mainly used to represent non-profit

organizations composed of associations and foundations. The non-profit sector approach, which initially emerged in the North America, is deeply related to the American negative attitude towards royal rule and the centralization of power (Borzaga and Defourny, 2001). The contemporary definition of the non-profit sector was constructed and spread across the world through cross-national research by Johns Hopkins University from 1990 onwards. This famous international research regarded organizations with five common features as actors in the non-profit sector. The five features are (Salamon and Anheier, 1997, pp. 33–34) :

- Organizations, i.e. they have some institutional reality, and are usually a legal entity.
- Private, i.e. they neither belong to the state, nor are they controlled by the public sector even though they may be supported by the government.
- Non-profit-distribution, i.e. they cannot distribute any profits generated to their owners or directors, so the profits are reinvested in the original mission of the organization.
- Self-governing, i.e. they have their own regulations to control their activities and decision-making system.
- Voluntary, i.e. they embrace a meaningful degree of voluntary activity in terms of membership and funding (donations).

Among these characteristics, the non-distribution constraint plays an essential role, so the concept covers only private organizations possessing regulations that prohibit them from distributing profits to stakeholders such as founders, equity holders or directors (Monzón and Chaves, 2012). For this reason, the non-profit sector concept excludes from its domain cooperatives able to distribute profits to members, although they are main actors in the social economy, especially in the European context (Laville, 2011; Salamon and Anheier, 1997).

### **Social Economy Approach for the Research**

The European social economy approach and the American non-profit approach show important similarities and differences at the same time. Both of them require organizations to install a formal structure, have some characteristics of private enterprise (independent from government), be self-governing, and have voluntary aspects (Borzaga and Defourny, 2001).

However, as shown in Table 5-1, major differences are pointed out in three dimensions: the clear expression of organizational goals, a decision-making system, and profit distribution (Borzaga and Defourny, 2001). First of all, in the social economy perspective, the explicit goal of actors is chiefly to promote interests of members or community rather than to maximize profits. In the Anglo-Saxon approach, there is no clear reference to the aims of organizations. Secondly, the social economy requires its actors to set up a democratic and participatory decision-making process to control the organizations, whilst the non-profit approach does not refer to any democratic requirement. Finally, organizations belonging to

the social economy can distribute parts of surplus to members, founders and directors, but in the perspective of the non-profit organization, profit distribution is strictly prohibited.

Table 5-1) Differences between the social economy and the non-profit perspective

	<b>Social Economy</b>	<b>Non-profit</b>
<b>Goals</b>	Serve members or communities	No explicit representation about goals
<b>Decision-making system</b>	Democratic (one person, one vote) and participatory system	No democratic requirement
<b>Profit distribution</b>	Possibility of limited profit distribution to members, founders and directors	Strict prohibition of profit distribution

Source: Borzaga and Defourny (2001)

However, Borzaga and Defourny (2001) point out that the above differences are not decisive, so the distinctions are blurred in the actual world. For example, not all organizations in the social economy, especially foundations, reject a democratic decision-making procedure. Moreover, it is an important point that the profit distribution in social economy bodies, such as cooperatives or mutual societies, is restricted by inside and outside regulations as well.

As found in Laville's (2011) criticism, the non-profit perspective has an American bias that focuses too much on the non-distribution constraint, as this is essential in defining foundations, which are the main players in the third sector in the United States, so the perspective has limitations in explaining European and other countries' situations. A number of European researchers do not accept the non-profit concept because it highlights, in an

excessive way, the American culture of a third sector independent of state power. Taking into account the development process of the European third sector, this tendency is natural, because the sector has experienced cooperating with, and being integrated into, the state in the process of increasing welfare services.

In conclusion, the non-profit approach is not relevant to this research because it rules out cooperatives taking a main stage in the third sector in Korea. In addition the non-profit perspective has limited power to explain social enterprise that in many cases shows both cooperative characteristics and non-profit traits (Borzaga and Defourny, 2001). The idea of the social economy, however, can include Korean social enterprise in its domain even though an additional minor consideration is needed because basic elements or conditions of the social economy do not exactly fit with social enterprise in the country. For example, in Korean social enterprises it is not necessary to construct a democratic decision-making system that represents ‘one person, one vote’ if they have a participatory decision-making system in which stakeholders can take part.

### **5.2.2 History**

#### **Before the late 1980s**

The second half of the 1980s is regarded as an important period to for the social economy in Korea, because it was then that the sector started to expand in earnest in both qualitative and

quantitative aspects, following the democratization of 1987. Therefore, in reviewing a brief history of the Korean social economy, taking the 1980s as a point of departure is quite relevant. According to Bidet (2002), the exploitation of anti-communist orthodoxy from the country's liberation from Japanese rule in 1945 to the democratization in 1987 firmly prevented the growth of the social economy.

As in many other countries, the social economy in Korea is deeply rooted in cooperative movements (Mendell et al., 2010). According to Jang (2006), the modern Korean social economy originated from cooperative movements which began after the 3.1 Independence Movement in 1919. In 1920, the Kyungsung Consumer Cooperative and the Mokpo Consumer Cooperative were set up as the first cooperatives in Korea (Jang, 2006). The organizations aimed to increase the Korean people's economic independence in the face of Japanese colonial rule as well as to supply economic benefits to people. The Japanese colonists, however, forcefully broke up these growing cooperatives in 1933, labelling them as socialist or communist groups that aimed at the independence of Korea. It is widely accepted that these first cooperatives were the forerunners of recent workers' cooperative and consumers' cooperative movements in Korea (Mendell et al., 2010).

Although cooperative movements were systematically deployed by both the left wing and the right wing after Koreans regained their sovereignty from Japan in 1945, the US military government and the authoritarian regimes of Seungman Lee, the first president, and Junghee Park, president from 1963 to 1979, looked at these civilian voluntary movements negatively

and repressed them (Shin et al., 2012). The US provisory rule, which intended to establish a solid anti-communist country on the Korean peninsula, repressed leftists and their activities such as the people's committees that had been founded voluntarily at regional level (Bidet, 2002). From 1961, the Junghee Park regime started to appoint the chairman of the National Agriculture Cooperative Federation and the presidents of regional cooperatives, where previously these positions had been elected by members. As government control and interference in cooperatives became worse, the agriculture cooperative was regarded as a public corporation and used for the military regime's political purposes, and this tendency, which was similar to those in other cooperatives such as the fisheries cooperative and the forestry cooperative prevented the development of voluntary cooperative movements (Jang, 2006). For this reason, Shin (2009) insists that these cooperatives have to be excluded from the Korean social economy sphere in spite of their names because they were dominated by the military government and took a collaborative role in the anti-cooperative economy development plan.

On the other hand, voluntarily created credit unions emerged in primarily urban areas from the early 1960s (Jang, 2006). The Sung-ga Credit Union, the first credit union in Korea, was constructed in Busan, the second largest city, principally by the American, Sister Mary Gabriella. In 1964, credit union activists established the national level Credit Union Federation, and the Credit Union Act was finally enacted in 1972. Community Credit Cooperatives, initiated by Park's government to correspond to the voluntary credit union movement in the 1960s, had similar characteristics to credit unions (Shin et al., 2012). Both



of them, however, suffered from large-scale accounting fraud incidents in the 1980s, which led to government intervention and bailout, and they were institutionalized as elements of the non-banking sector.

### **After the second half of the 1980s**

The characteristic of the social economy before 1990 can be summarized by saying that grassroots level cooperative movements were exterminated through powerful initiatives led by government, even though there had been only very limited growth of credit union movements (Shin et al., 2012). In the late 1980s, there were noticeable developments in the social economy sphere in Korea.

Relatively active consumer cooperative movements started to emerge after the popular organization, the Hansalim Consumer Cooperative, was created in Seoul in 1986 ('History | Hansalim', n.d.; Jang, 2006). The Minwoo Cooperative that was created by the Korean Women's Link, an organization advocating women's rights, appeared in 1987 (Shin et al., 2012). In addition, activists experienced in the student anti-dictatorship movements and labour movements began to establish consumers' cooperatives in the big cities and industrial regions.

In the 1990s, consumer cooperatives that had appeared in the late 1980s tried to create nationwide unions and these national-level organizations took the lead in various activities such as helping the North Koreans, cooperating with Japanese cooperatives and promoting

fair trade (Shin et al., 2012). These movements were supported by legal recognition in Consumer Cooperative Act of 1999 (Jang, 2006). Another significant fact is the emergence of workers' cooperatives, mutual assistance cooperatives and social cooperatives in the 1990s (Shin et al., 2012). The workers' cooperative movement, in other words the community production movement, influenced by the Spanish Mondragon Corporation Cooperatives, did not flourish, but the movement, combined with government welfare policy, led to the SSP later.

The financial crisis of 1997 in Korea deprived numerous people of jobs and they faced serious situations threatening their basic standard of living. The Daejung Kim administration enacted the NBLS Act in 2000, and this included initiatives to support self-help for the disadvantaged who are extremely poor but able to work. According to the Act, poor people who were able to work had to participate in SSP in order to receive a subsistence allowance from government.

Mutual aid societies founded by regional self-support centres took an important role in leading mutual support activities among extremely poor participants for the SSP (Mendell et al., 2010). The movement, which was presented as an alternative to the workers' cooperatives, did not develop into an independent stream of movements but influenced government policies such as SWP and social enterprise promotion plans.

Regarding civic movements, most activities of advocacy groups before the democratization concentrated on fighting to attain political liberty rather than to improve economic

democracy (Bidet, 2002). Not until in the late 1980s did the activities of the civic movement start to embrace socio-economic and political issues such as the environment, women’s rights, social and economic justice, political corruption and the creation of a welfare system (Bidet, 2002; Mendell et al., 2010).

### 5.2.3 Scope of the Social Economy

#### Previous Studies

A lot of agricultural, fisheries and consumers’ cooperatives, credit unions, mutual societies, social enterprises and non-profit organizations exist in South Korea. In Table 5-2, Eum (2008) categorizes the Korean social economy into the traditional social economy and the new social economy.

Table 5-2) Scope of the social economy in Korea

Traditional social economy	Agricultural cooperatives	
	Fisheries cooperatives	
	Forestry cooperatives	
	Community credit cooperative	
	Credit union	
New social economy	Private associations	
	New cooperatives	Consumers’ cooperatives Workers’ cooperatives
	Social enterprises	

Source: Eum (2008)

In this classification, Eum sees the old cooperatives, such as agricultural cooperatives, fisheries cooperatives, forestry cooperatives, credit unions and community credit cooperatives, as members of the traditional social economy. New cooperatives like consumers' cooperatives and workers' cooperatives, private associations, and social enterprises are regarded as elements of the new social economy.

Shin (2009) splits the social economy into production, consumption, trading and distribution sectors, according to the economic characteristics of organizations, and places the various bodies of the social economy into the four categories. According to him, social enterprises, workers' cooperatives and self-support communities are included in the production sector. Consumers' cooperatives and childcare cooperatives are put into the consumption sector. Shin's classification is new and systematic in considering the social economy as divided into four sectors of production, consumption, trading and distribution.

Table 5-3) Examples of social economic organizations by area of economic activities

Area of economic activities	Social economic organization	
Production	Social enterprises, workers' cooperatives, self-support communities	Local food networks
Consumption	Consumers' cooperatives, medical cooperatives, childcare cooperatives	
Trading	LETS	
Distribution	Micro credit organizations, charities	

Source: Shin (2009, p. 36)

His idea, however, has a possible weakness in that it excludes a number of non-profit organizations. Moreover, his scheme neglects agricultural cooperatives completely, regarding them as organizations that lack voluntary and autonomous qualities. Even though the creation of agricultural cooperatives was led by the public sector, excluding them from the social economy sector is excessive, considering these organizations' contribution in promoting members' interests and improving the degree of autonomy.

According to Noh (2009) the Korean social economy includes cooperatives, mutual societies, associations, social enterprises, and NPOs such as civic movements and voluntary groups. Even though a few social scientists have tried to make it clear, there is still confusion and haziness as to which organizations should be included in the sector and which ones should not.

In the meantime, foreign social scientists introduced a relatively simple classification into the social economy in Korea. Bidet (2002) classifies the sector into the cooperative sector and the non-profit sector. The former consists of cooperatives serving the state and cooperatives that are more independent. The latter is made up of service delivery non-profits and advocacy non-profits. The service delivery organizations are mainly foundations and social welfare service centres, whilst the advocacy groups are civic movements for the protection of the environment, or the improvement of social justice and welfare. Similarly, Mendell et al. (2010) see the Korean social economy scope as cooperatives, non-profit organizations and social enterprises. According to them, cooperatives in Korea can be

divided into the traditional old cooperatives and the new cooperatives, and non-profit organizations are divided into service provision organizations and civic movements.

### **Organizations in the Korean Social Economy**

The researcher considers that the Korean social economy is made up of the following: cooperatives, non-profit organizations (service provision groups and civic movements), social enterprises, companies similar to social enterprises, and mutual societies.

#### ***Cooperatives***

Bidet (2002) describes the features of Korean cooperatives as being different from those of organizations developed in a European cooperative context. According to him, the agricultural cooperatives have led the Korean cooperative sphere, dominating credit and production-supply channels, and they have also controlled consumption using their nation-wide shopping networks. However, the most prominent feature distinguishing them from those in European countries is the tendency for top-down control by central government.

In spite of the dependency on government, Korean agricultural cooperatives have a significant international status, and was placed fourth in the World 300 by the International Cooperative Alliance (Mendell et al., 2010). In 2008, agricultural cooperatives had 2.4 million members and there were 1,200 regional cooperatives, fishery cooperatives had 170,000 members, and forestry cooperatives 50,000 members (Shin, 2009). In terms of

business, their major activities are moving toward more profitable businesses such as banking and insurance, and this means that they are increasing the number of transaction with non-members. Credit Unions and Community Credit Cooperatives, are engaged in banking and lending to the poor, to low income households and to small and medium enterprises, and the former employed 8,220 people in 2006 and the latter hired 31,000 in 2007 (Mendell et al., 2010).

Fuelled by the democratisation movement in the late 1980s, consumers' and workers' cooperatives appeared in the 1990s, offering a foothold to self-support assistance centres later (Mendell et al., 2010). Consumers' cooperatives in Korea are most similar to the European and Canadian concept of the social economy, because they are independent from government, rooted in civil society and more voluntary. In 2008, the eight nation-wide networks of consumers' cooperatives included 255 cooperative units, and 473,504 members, and employed 4,280 workers (J. Kim, 2009).

### ***Non-profit Organizations (NPOs)***

As in the USA, constraints regarding non-profit distribution are a crucial criterion for confirming whether a certain organization is an NPO or not in Korea. The Corporation Tax

Act regards legal entities based on Article 32 of the Civil Act<sup>5</sup> and on the other individual acts<sup>6</sup>, and unincorporated organizations with the non-profit distribution constraints, as non-profit organizations.

#### *Service Provision NPOs*

Non-profit organizations supplying service to the disadvantaged play an important role, considering their ability to create income and jobs, and to supply social services. This type of NPO mainly consists of foundations and social welfare centres.

The Work Together Foundation and the Korean Foundation for Social Investment, founded in 1998 and 2007 respectively, are involved in job and enterprise creation for the underprivileged (Mendell et al., 2010). The Korean Foundation for Social Investment, especially, takes a major role in investment for the growth of the Korean social economy. The Korean Foundation for Women was established in 1999 to enhance gender equality, to help low income women, to support NGO activities for women, and to supply childcare

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<sup>5</sup> Article 32 (Incorporation of Non-Profit-Making Juristic Persons and Permission thereof) An association or foundation relating to science, religion, charity, the arts, social intercourse, or otherwise relating to enterprises not engaged in profit or gain, may be formed as a juristic person subject to the permission of the competent authorities.

<sup>6</sup> Social Welfare Act, Framework Act on Education, Private Schools Act and Medical Act



services. The Beautiful Foundation was launched in 2000 to disseminate a donation culture and to back civil groups focusing on activities to support the disadvantaged.

Regarding foundations, however, there is a controversy among researchers as to whether foundations related to hospitals and schools, and corporate foundations, can be included as belonging to the social economy, because several research studies have shown that a number of these foundations behave like for-profit companies, mainly seeking tax exemption rather than pursuing a social purpose (Kim et al., 2009; Mendell et al., 2010; Noh et al., 2008).

Social welfare centres in Korea are engaged in delivering social services to the underprivileged, such as the poor, women, children, the elderly and the disabled (Mendell et al., 2010). In many cases, these centres, chiefly operated by social welfare foundations, join public welfare programs and are supervised by government.

A series of research studies has pointed out the characteristics of service provision NPOs in Korea. First of all, a number of foundations, especially health and education foundations and foundations built by large companies, have been established principally for the financial purpose of tax benefits such as exemption from inheritance tax (Bidet, 2002; Mendell et al., 2010). Another point about the NPO sector in Korea, although this is not unique in the country, is that a lot of social welfare centres are highly institutionalized and under the control of a government that provides them with their main financial resources (Mendell et al., 2010). A third difference in the country's NPOs from those of the Western developed countries is that there is limited dependence on donations and volunteering from the private

sector. According to the World Giving Index, 2012, published by the Charities Aid Foundation (2012), Korea was the 45<sup>th</sup> country out of a total of 146 in terms of the amount of money donated and time volunteered in 2011. A similar tendency is identified by Salamon and Sokolowski's (2004) research. According to these scholars, between 1995 and 2000, volunteers in the Korean civil society sector accounted for 0.55% of the economically active population in the country, whereas the figure in developed countries reached 2.71% and the average for 36 countries was 1.61%.

### *Advocacy NPOs*

Civic movements in Korea grew through the democratisation movement in the late 1980s. These advocacy groups, which depend heavily on their large membership, concern themselves with a number of issues such as environment, social justice, political corruption and the welfare system. Independent from both the public and the private sectors, the advocacy organizations are bringing themselves closer to the social economy in spite of their limited economic activities (Mendell et al., 2010). Mendell et al. (2010) maintain that these groups could be classified in the social economy in terms of their values and principles.

The largest advocacy organization, the Korean Federation of the Environmental Movement created in 1993, had about 45,000 members in 2005 (Mendell et al., 2010). Two other distinguished groups, the Citizens' Coalition for Economic Justice established in 1989 and the People's Solidarity for Participation and Democracy created in 1994, had 35,000 and 10,000 members respectively in the same year.

### *Estimated size of the NPO sector*

The size of the NPO sector has to be estimated from various sources because there are no unanimous criteria for defining and calculating this. Research into NPOs in Korea as well as reliable data on the sector's size is insufficient (H.-W. Kim, 2009; Noh et al., 2010). As shown in Tables 5-4 and 5-5, the total number of non-profit organizations increased from 27,500 in 2006 to 28,905 in 2010. Religious organizations accounted for the largest proportion, about 62%; and organizations for science, scholarship and charity came next, showing about 11% in 2010. When unincorporated bodies were excluded, however, the percentage of religious organizations dropped radically to 6.2%, and the NPOs for science, scholarship and charity became the leading group, at 29.5%.

Table 5-4) Number of non-profit organizations by legal status (2010)

		Educations	Science, Scholarship, Charity	Social welfare	Medical treatment	Religion	Culture	Others
Legal entities	9,755	1,515 (15.5%)	2,868 (29.5%)	2,404 (24.6%)	592 (6.1%)	609 (6.2%)	569 (5.8%)	1,198 (12.3%)
Unincorporated organizations	19,150	234	295	426	18	17,349	104	724
		1,749	3,163	2,830	610	17,958	673	724
Total	28,905	6.1%	10.9%	9.8%	2.1%	62.1%	2.3%	6.7%

Source: Government internal data (unpublished)

Table 5-5) Number of non-profit organizations (including unincorporated organizations)  
(2006 and 2007)

	Total	Education	Science, Scholarship, Charity	Social welfare	Medical treatment	Religion	Culture	Others
2006	27,500	1,858	2,837	2,617	478	17,135	493	2,082
	100%	6.8%	10.3%	9.5%	1.7%	62.3%	1.8%	7.6%
2007	27,793	27,793	1,751	2,937	2,692	17,691	561	1,766
	100%	6.3%	10.6%	9.7%	1.8%	63.3%	2.0%	6.3%

Source: Yearbook of National Tax Statistic 2007, 2008

Noh (2011) divided up NPOs primarily according to the International Classification of Non-profit Organizations (ICNPO). According to his classification, in 2008, the social welfare sector was the largest, accounting for 47.1%, and the education sector came next, at 10.7% in 2008. Noh's result is quite different from the statistics given above, as he used data from the Non-profits Organization Survey conducted by the Korean Labour Institute in 2008. The Institute researched 1,452 non-profit organizations selected from the database on the National Employment Insurance, and estimated the total picture of the non-profit sector in Korea (Kim et al., 2009). The difference appeared because the Employment Insurance database does not have any information on most religious groups, and researchers in the project excluded hospitals and private schools, so they were estimating the total scale of the non-profit sector from limited samples.

Table 5-6) Non-profit organization distribution according to activity area (2008)

	Culture and recreation	Education and research	Social service	Environment	Development and housing	Philanthropy
%	6.8	10.7	47.1	3.8	5.6	3.0
	International	Religious	Business and professional associations, unions		Others	Total
%	3.0	3.3	10.3		6.5	100

Source: Noh et al. (2010, p. 84)

Noh et al. (2010), referring Park's research of 2006, wrote that the economic contribution of the NPOs in Korea had grown to 3.92% of GDP in 2003 from 3.38% in 1997. In recent research, NPOs in South Korea were estimated to employ 0.82 million people, which accounted for 3.5% of total employment in 2006 (H.-W. Kim, 2009). Comparative research by Johns Hopkins, however, indicated that the proportion of employment by NPOs in 1995 was 2.5% of total employment (Kim and Hwang, 2002). According to Salamon and Sokolowski's (2004) research, the Global Civil Society Index of Korea is 35, which places the country in twentieth place out of 34 countries. Furthermore, the size of the NPO sector is estimated to be relatively small if we look at its workforce. The percentage of the workforce in NPOs, out of the total workforce of the country between 1995 and 2005, is just 2.4%, which is below 4.4%, the average for the 36 countries (Salamon and Sokolowski, 2004). It is also far behind the average for developed countries, 7.4%.

### ***Social Enterprises and Social Enterprise-like Organizations***

Social enterprises certified by government are important elements of the social economy. As of 2010, 501 organizations were certified and 13,443 people were employed by these organizations (*Social Enterprise Guide Book*, 2012). A more detailed picture of the Korean social enterprise sphere will be introduced in the next section about market type.

Community business companies, rural community companies and self-support community companies have similar characteristics to social enterprises in Korea, so it is natural to include this type of organization in the Korean social economy. Community business companies supported by the Ministry of Public Administration and Security aim to generate stable revenue and jobs based on specific regional resources and organizations existing within communities (*Social Enterprise Guide Book*, 2012). Rural community companies are established to create income and to contribute to the development of local society using human and material resources in rural areas. This kind of company is assisted by the Ministry for Food, Agriculture, Forestry and Fisheries. Self-support community companies formed by beneficiaries of the NBSL system or low-income people, operate businesses to escape from poverty. The MOHW promotes the self-support community company initiative.

These organizations are identified as similar to social enterprises and the Korean Government hopes that a number of them will develop into social enterprises in the long run. Therefore, the government supports these organizations regarding them as prospective social enterprises that lack a certain degree of public purpose or participatory decision-making.

Information of prospective social enterprises can be found in the section of policy context in this chapter.

### ***Mutual Societies***

Employees working in similar fields establish mutual societies to improve welfare for members or to protect themselves against possible common hazards. Mutual societies in Korea are founded according to Acts such as the Act on the Employment Improvement of Construction Workers, the Act on the Mutual Aid Association of Korean Teachers and Staff, the Act on Mutual Aid Associations in Electrical Construction, and so on.

According to Kim et al. (2009) mutual societies in Korea are also included in the social economy category, as they are established voluntarily for members' interests and are independent from the state, even though Shin (2009) insists that these mutual societies in the country have to be excluded from the social economy as the process of establishment was led by government and current organizational structures are not democratic.

Mutual societies in Korea are likely to take a limited role in the Korean social economy, although they may be members of the sector. In many cases, it is unclear whether their managements are completely independent from government or not, since there are decision-making processes in which government officials join. In addition, in the case of the mutual aid associations of electrical construction, members have a number of votes according to the number of their investment accounts.

#### **5.2.4 Relationship with the Sustainability of Social Enterprises**

As can be presumed by the size of NPOs, the social economy sphere in Korea has been comparatively small and weak, considering the social and economic development of the country. This situation is likely to mean there is more scope for the social economy sector to become a larger and stronger actor in society in the future. Development of the social economy could have a positive influence on improving the sustainability of social enterprise because the sphere could be a source of social entrepreneurs, finance, social networking and cooperation for marketing.

#### **Supplying Social Entrepreneurs**

As Weerawardena and Sullivan Mort (2001) insists, sustainability or success of social enterprise in terms of both the achievement of social purpose and competitive advantage in the market is influenced by social entrepreneurs and their activities. From this point, we can infer that social entrepreneurs and their entrepreneurship can take an important role in shaping a sustainable social company. These social entrepreneurs can be supplied by the social economy sector, so the sector can affect the sustainability of social enterprises.

Members of the social economy, such as cooperatives, non-profit organizations, and advocacy groups can become significant training places for nurturing social entrepreneurs, given their social mission and economic activities. According to Lee's research in 2008, nearly 50% of social entrepreneurs originated from the social economy in Korea. More



specifically, 28.7% of all social entrepreneurs, the largest proportion, had a background as social workers; and the second largest proportion, 19.1%, came from civic movement groups (Lee, 2008).

### **Important Funding Source**

A number of scholars admit that one of the most important determinants of success in social enterprises is secure and sustainable funding (Peattie and Morley, 2007). Access to stable funding can be dependent on the social economy as well as social enterprise policy and the market.

In terms of investment in social enterprises, about 63% of the total equity comes from social economy organizations, whereas 37% originates from private companies (Gwak, 2010). When it comes to loans, in 2010, 23.5% of 162 social enterprises that borrowed money took out a loan from the social economy sector, more specifically from micro-credit organizations, while 19.1% used public resources and 40.7% borrowed from private banks (Gwak, 2011).

### **Social Network**

Sharir and Lerner (2006) demonstrate the entrepreneur's social network as one of the most valuable resources of social ventures. Social networks can serve as a supplementary resource to social enterprises, which usually lack financial and human capital, and expertise, compared to conventional business companies.

Creating and operating the social network can be led by practitioners from the social economy both at the official and the unofficial level. Social economy activists are able to form useful networks and share their experience and information with one another. For example in Korea, social economy organizations are operating the Korean Social Economy Solidarity Forum and social entrepreneurs can use the forum as a social network.

### **Cooperation in the Market**

One of the frequent complaints of social entrepreneurs in Korea is that it is hard to find markets in which to sell their products, so they asked the government to set up a protected market for social enterprises (Jeon et al., 2012). Even though the government encourages social enterprises to participate in public procurement, giving them a few additional points when it evaluates companies at public bids, most enterprises are still suffering from tough competition in the markets.

In this situation, members of the social economy, especially large cooperatives, can assist other social enterprises through buying their products or services. In addition, bodies such as agricultural cooperatives, which have tremendous nation-wide marketing networks, can let other smaller social enterprises use parts of their marketing network.

### **5.3 Market Type**

As argued in Chapter 3, the market is one of essential places where social enterprises create profits through their business activities. In spite of significant influence of market type of on sustainability, it is hard to find previous literature on the relationships between industries and the organizational outcome. In this section, the relationship between the industrial type as a structural factor and social enterprise sustainability is explained primarily drawing on literature by Kerlin (2012, 2010) and Aiken (2006b). Then, the researcher will provide information on the sustainability of Korean social enterprise in various industries through a descriptive secondary analysis of data. As mentioned in the methodology chapter, the descriptive analysis was conducted with numerical data supplied by the KOSEA and annual analyses of Korean social enterprise performance commissioned by the government.

#### **5.3.1 Market and Social Enterprise Development**

The concept of the market in the context of social enterprise is found in international comparative research into the origin of social enterprise. The main idea in the research is to focus on the reasons why the concept, roles, features and construction process of social enterprise vary among the various countries. Kerlin (2012, 2010) carried out comparative studies considering the market or the economic situation as a significant factor for the origins of social enterprise and its growth.

Drawing primarily on the social origins theory, Kerlin (2010) explores the different versions and development processes of social enterprise in several countries. According to the social origins perspective, differences in social enterprise across countries in terms of size, structure and financial base can be linked to these countries' various socio-economic contexts. She suggests four factors that characterize non-profit organizations: civil society, government, the market and international aid.

Three factors out of the four – that is, leaving out the factor of international aid – are strong in the United States and Western Europe. In the case of the United States, the dominant factors shaping social enterprise are market performance and the strength of civil society (Kerlin, 2010). In Western Europe, however, it is the strong governments providing funding and strategic initiatives that have led the development of social enterprise. The market performance in the region has been strong but its influence on shaping social enterprise has been thought weaker than that of the state or civil society.

If Kerlin's argument is applied to the Korean case, the dominant elements in the country are the government and the market factor, while the civil society factor is relatively weak. Traditionally, civil society in Korea has been barely in evidence, basically due to strong governments (Kim and Hwang, 2002). As mentioned earlier, the health and vitality of the country's civil society was estimated below the median of 34 countries (Salamon and Sokolowski, 2004). Market functioning in Korean, however, can be evaluated as fairly good, in that the Global Competitiveness Report 2010-2011 placed the country at an innovative-

driven stage of economic development (Schwab, 2010).

Kerlin, in her 2012 research, proposes five social enterprise models that reflect the development stages of the economy and the characteristics of civil society. According to her, social enterprise types across the countries fall into one of these five ideal models: sustainable subsistence; autonomous mutualism; dependent focused; enmeshed focused; and autonomous diverse. The stage of economic development is categorized into one of three phases, in accordance with the Global Competitiveness Report 2010-2011, which was presented at the World Economic Forum in Switzerland in 2010 (Schwab, 2010). The factor-driven stage is defined as having heavy dependence on the export of mineral goods, and poor policy and infrastructure. Industrialization is described as the high productive efficiency and the improved quality of products that characterize the second, the efficiency-driven stage. The innovation-driven stage shows a high level of wealth and economic growth through the creation of innovative products.

The sustainable subsistence model found in Zimbabwe and Uganda matches well the factor-driven stage of an economy having the low level of national income (Kerlin, 2012). To address a poverty issue, social enterprise in the model is operated by small groups of entrepreneurs supported by international aid and microfinance program.

The author argues that the autonomous mutualism model found in Argentina and the Ukraine can be seen as a civil society establishing itself after an authoritarian period. The civil society supplies social goods and services that are not provided in sufficient quantity by

the state and the market. The efficiency-driven stage is appropriate to this model because of the countries' industrialization situation, in which small and medium sized companies carry out their business activities in common.

The dependent focused model is relevant to Italy and Germany, and the enmeshed focused model describes Sweden and Austria, which draw heavily on public funding of the strong welfare state. In these models, social enterprise becomes dependent on the government welfare programs or policy. The degree of dependence on the state is much stronger in the enmeshed focused model. In addition, this model shows less diverse types of social enterprises than the dependent focused one. Both models are related to the innovation-driven stage on the economic growth path, because abundant resources from high GDP per capita are available to sustain the welfare policy of the state, to support social enterprise and to encourage entrepreneurs to be innovative.

The autonomous diverse model evident in the United States is defined by strong autonomy and a significant diversity of social enterprises. This situation mainly occurs in a less prominent welfare state where not enough supporting resources are provided to social enterprises. Under these circumstances, social entrepreneurs develop independently from government welfare programs and create more sophisticated and innovative business activities to generate income from the market. This model goes well with the innovation-driven stage because the significant wealth of this society can foster benevolent individuals or institutions to support social enterprises.

This model, however, has its limitations in explaining the context of Korean social enterprise. Following Kerlin's argument, social enterprise in the country should be categorized as one of the dependent focused, enmeshed focused or autonomous diverse models as the economic development of the country is at the innovative-driven stage. However, none of Kerlin's categories is appropriate to Korean social enterprise. The first two models presume the strong welfare state but Korea cannot be regarded as a welfare state. The social expenditure of the public sector in this country is just 7.6%, and this figure placed Korea in the second lowest position among 34 OECD countries in 2007 (Adema et al., 2011). In addition, social enterprise in Korea cannot be categorized into the autonomous diverse model because these organizations have been developing with the strong government involvement (Bidet and Eum, 2011; Hwang et al., 2011; Park, 2012).

Aiken (2006b) proposes two types of markets in which social enterprises are embedded: social welfare markets and commercial markets. A number of social enterprises are involved in the social welfare market where social enterprises operate programmes for the disadvantaged using government finance. Social enterprises operating in the commercial markets, however, sell products and services to people, private companies, or government on a similar basis to private business.

According to Aiken (2006b) organizations in social welfare markets are so dependent on public sector resources that the situation can threaten the autonomy of these social enterprises. They are likely to lose flexibility and have a tendency to focus on funders rather

than clients because they have to follow the rules and regulations attached to public funds. The loss of flexibility and the over-concentration on funders' demands can prevent social enterprises from supplying the best services to the disadvantaged and in the long run have a detrimental effect on the sustainability of organizations. Successful social enterprises in commercial markets, however, tend to pursue social goals in an implicit way. A commercial success by a social enterprise has both positive and negative effects on the organization's sustainability. There needs to be a commercial factor for organizations to become stable and successful. The challenge brought by financial success, however, is that under pressure from tough market competition social enterprises are likely to become over-commercialized.

### **5.3.2 Current Situations of Social Enterprise by Market Types in Korea**

#### **Categorization of Social Enterprise Markets**

According to the SEPA, social enterprises should pursue social purposes through supplying the disadvantaged with social services or job opportunities (*Social Enterprise Promotion Act*, 2012 Article 2). In addition, the Enforcement Decree of the SEPA lists types of social service: childcare; arts, tourism or sport; forest protection or management; nursing or home care services; preservation of cultural assets; cleaning or maintenance; services relative to employment; and other services which the MOEL chooses to include (*Enforcement Decree of the Social Enterprise Promotion Act*, 2010 Article 3).



Gwak (2011), who was commissioned by the MOEL classified the business types of social enterprise drawing on the categories in the Act and the Enforcement Decree to analyse the social and economic performance of the organizations. This classification has eight categories and several categories have sub-categories. The categories are: (1) education, (2) healthcare, (3) social welfare, (4) environment, (5) childcare, (6) culture, tourism, the arts and sports, (7) nursing and home care services, and (8) others. Education includes afterschool provision, professional education, and education for the disabled. Environment has recycling, cleaning, house repairing, and ecological movements as its sub-categories. Midwifery, nursing, and home services are put into the nursing and home care service group. The group of 'others' is composed of food manufacturing, distribution, general manufacturing, computer services, consulting and regional development; printing, and production and publication of printed paper material; and other services. The classification has limitations for examining the current situation because the category of 'others' is too large to be understood as just one group. This category 'others' accounts for 39.9%, and was the largest of all categorises to which certified social enterprises belonged in 2010.

In this research, the 'others' type is divided into manufacturing and others. Manufacturing consists of food and general manufacturing, and printing and publication of printed paper products. 'Others' is made up of distribution, computer services, regional development and consulting, and other services. This classification might be better for understanding Korean social enterprise by market type even though it is still not satisfactory. For more fruitful analysis, government or researchers should construct a more specified categorization.

### Size (number, employees and average assets)

Table 5-7 shows organizations that were certified as social enterprises from 2007 to 2010. Then, the number of Korean social enterprises radically increased, reaching 1,124 in 2014 (Korean Social Enterprise Promotion Agency, 2014).

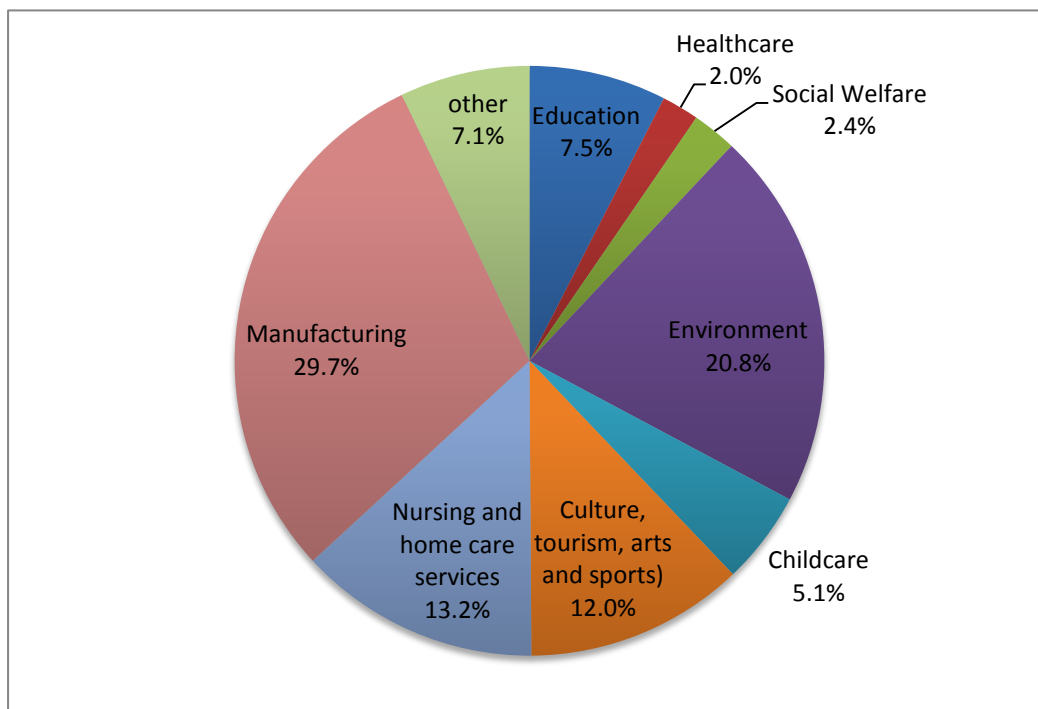
Table 5-7) Number of social enterprises by market (2010)

Market Types		Number	%
Education	Afterschool provision	6	1.2
	Professional education	23	4.7
	Education for the disabled	8	1.6
	Total	37	7.5
Healthcare		10	2.0
Social Welfare		12	2.4
Environment	Recycling	37	7.5
	Cleaning	44	9.0
	House repairing	14	2.9
	Ecological movement	7	1.4
	Total	102	20.8
Childcare		25	5.1
Culture, tourism, arts, and sports	Culture and arts performance	47	9.6
	Tourism	12	2.5
	Total	59	12.0
Nursing and house care services	Nursing	52	10.6
	Home care services	8	1.6
	Midwifery services	5	1.0
	Total	65	13.2
Manufacturing	Food manufacturing	84	17.1
	General manufacturing	50	10.2
	Printing and publication of printed paper products	12	2.5
	Total	146	29.7
Others	Distribution	8	1.6
	Computer services	13	2.7
	Regional development, or consulting	5	1.0
	Other services	9	1.8
	Total	35	7.1
Total		491	100.0

Source: Gwak (2011, p. 53), reconstituted by the researcher and the KOSEA

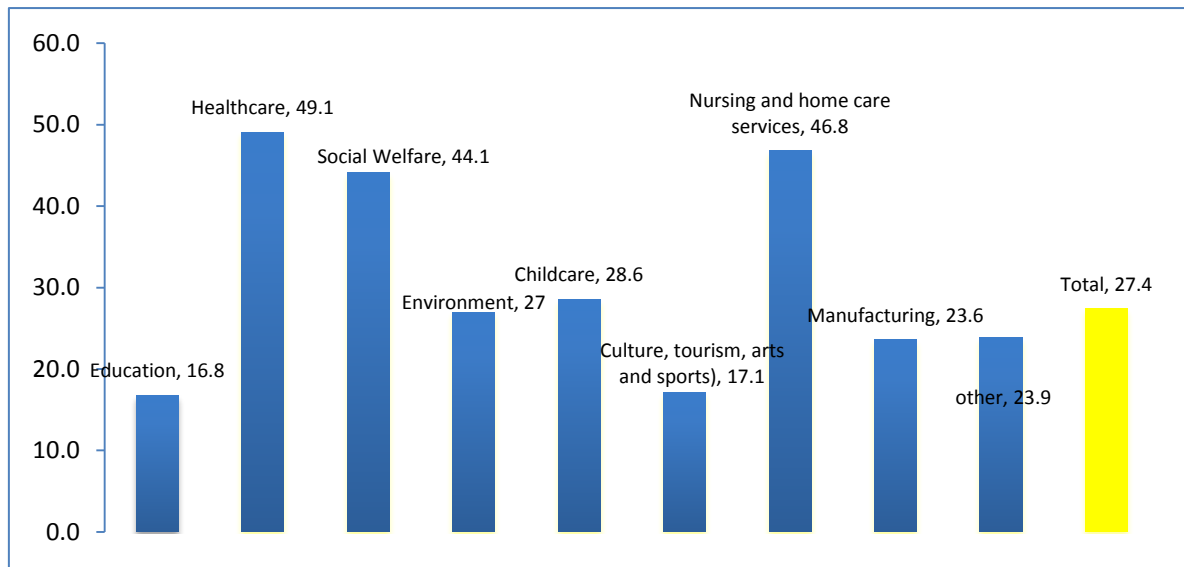
In 2010, the largest number of them were operating in the manufacturing market, accounting for 29.7% (146), and the second largest number, 20.8% (102) of all certified social enterprises were in the environment market. The next large section of the market was the nursing and home care service category, which accounted for 13.2% (65) of organizations.

Figure 5-1) Korean social enterprise by market type (2010)



In terms of employment, the number of staff employed by social enterprises increased from 2,539 in 2007 to 21,574 in 2013 (*2013 Social Enterprise Directory*, 2013). The average size of establishments in 2010 was 27.4. As of 2010, the average employment size of social enterprises in healthcare, nursing and home care services, and social welfare was relatively large. Organizations in culture, and education, however, hired relatively smaller numbers of workers per social enterprise.

Figure 5-2) Average number of employees by market type (2010)



The average assets of 491 social enterprises in 2010 were ₩520 million. Organizations in the healthcare, social welfare, manufacturing, and environment market possessed larger assets than the average for the total.

Table 5-8) Employees and average assets of social enterprises by market type (2010)

	Number of staff	Average Asset million ₩ (1,000 £)
Education	623	291 (162)
Healthcare	491	989 (549)
Social Welfare	529	913 (507)
Environment	2,749	592 (329)
Childcare	715	210 (117)
Culture, tour, arts and sports	1,008	218 (121)
Nursing and home care	3,041	432 (240)
Manufacturing	3,452	641 (356)
Other	835	897 (498)
Total	13,443	520 (289)

Source: Gwak (2011), reconstituted by the researcher and the KOSEA

## Sales and Profits (2010)

The average figure for sales of all social enterprises in 2010 was ₩767 million. Even though the average operating profits for these were - ₩170 million, the average net profit figure was ₩16 million, due to non-operating profits that consisted of government aid, donations from private companies and funds from parent companies.

Table 5-9) Average sales and average profits (2010), unit: million ₩ (1,000 £)

	Sales	Operating Profits	Net Profits
Education	269 (149.44)	-159 (-88.33)	14 (7.78)
Healthcare	1,666 (925.56)	162 (90.00)	-66 (-36.67)
Social welfare	1,191 (661.67)	-220 (-122.22)	6 (3.33)
Environment	809 (449.44)	-97 (-53.89)	21 (11.67)
Childcare	184 (102.22)	-211 (-117.22)	60 (33.33)
Culture, tourism, arts, and sports	347 (192.78)	-217 (-120.56)	8 (4.44)
Nursing and home care	612 (340.00)	-190 (-105.56)	20 (11.11)
Manufacturing	1,074 (596.71)	-199 (-110.75)	11 (6.38)
Others	897 (498.37)	-209 (-116.16)	22 (12.02)
<b>Total</b>	<b>767 (426.11)</b>	<b>-170 (-94.44)</b>	<b>16 (8.89)</b>

Source: Gwak (2011), reconstituted by the researcher and the KOSEA

In terms of average sales by market, organizations in the healthcare, social welfare and manufacturing markets form a high-volume sales group recording income of from ₩1,074

million (in manufacturing) to ₩1,666 million (in healthcare). Social enterprises operating in the environment sector and the nursing and home care sectors form the second most successful group, with average sales of ₩809 million, and ₩612 million respectively. Sales per company in the childcare, education and culture markets are relatively low, ranging from ₩184 million to ₩347 million.

Regarding average operating profits, the most significant fact is that the receipts are in deficit in every market except for healthcare, which realizes a ₩162 million surplus. This deficit is serious, especially in the social welfare, culture and childcare markets in which the average deficit reaches more than ₩200 million. The average deficit is relatively low in the environment market. As expressed in Table 5-9, the average net profits in all industrial types except healthcare show positive results. At ₩60 million, the surplus is largest in the childcare group. Besides this group, the environment group, and the nursing and home care groups appear to have greater average surpluses than the average net profits for social enterprises as a whole.

### **Doing Business on the Public Market**

Gwak (2011) insists that social enterprises can improve their competitiveness by doing business on the public market. The SEPA defines the obligation of public organizations to purchase goods and services from social enterprises (*Social Enterprise Promotion Act*, 2012 article 12).

Table 5-10) Business on the public market (2010)

	Sales to Public Market, million ₩ (million £)	Sales to Public market / Total Sales (%)
Education	1,751 (1.0)	33.0
Healthcare	3,368 (1.9)	10.7
Social welfare	1,190 (0.7)	9.8
Environment	13,034 (7.2)	16.4
Childcare	814 (0.5)	17.7
Culture, tourism, arts, and sports	6,716 (3.7)	33.7
Nursing, and homecare	12,830 (7.1)	33.7
Manufacturing	57,902 (32.2)	36.9
Others	6,176 (3.4)	19.7
<b>Total</b>	<b>103,781 (57.7)</b>	<b>29.4</b>

Source: Gwak (2011), reconstituted by the researcher and the KOSEA

The 491 social enterprises as a whole earned ₩103,781 million in trading with the public sector in 2010, and this accounts for 29.4% of total sales by these organizations. The amount of business on the public market is comparatively large in the manufacturing, culture, nursing and home care, and education categories, where social enterprises generated more than 30% of total sales in the public market. Organizations in the childcare and the environment sectors report their figures for sales on the public market as 17.7% and 16.4% of total sales respectively. Trade with the public sector is relatively low on the healthcare (10.7%) and the social welfare (9.8%) markets.

### **5.3.3 Estimation of Sustainability according to the Researcher's Criteria**

As mentioned in Chapter 4, it is the researcher's view that sustainable social enterprises should be expected to accomplish social missions as well as maintain financial viability. This being so, the achievement of social mission and financial viability was operationalized. The former can be judged according to whether certain organizations meet legal requirements relative to their social mission or not. Regarding the latter, the researcher argues that continuous business profits can be employed.

In this section, the researcher will explore the sustainability level of social enterprises in various markets. This descriptive analysis does not exactly match with the researcher's criteria because appropriate data were not obtainable. Specifically, a problem occurred in finding data related to financial viability. Originally, as explained in 4.5.2.2 Criteria for Case Selection, the researcher operationalized a certain organization as financially viable if it had continuous positive business profits from 2009 to 2011. The researcher, however, was not able to acquire satisfactory data covering those three years. Therefore, the researcher indirectly estimated the level using data processed and provided by the KOSEA, which included cross-sectional numbers in 2011 and 2012. The numerical information is not time series data, so the researcher cannot apply the condition of continuous business profits over the years. In addition, the data do not follow the researcher's classification of social enterprises, so the manufacturing category is included in the category of 'others'. Given this situation of deficient data, it is very difficult to say for certain whether some social



enterprises are sustainable or not. In addition, we can say that it is still too early to evaluate the sustainability of Korean social enterprise, taking into account its short history. In spite of these limitations, however, the description should be helpful in understanding the degree of the sustainability in Korean social enterprise as a whole.

With regard to social achievement, 96.4% of organizations did meet their legal requirement in 2011<sup>7</sup>. The situation was similar in 2012, when 96.7% of these organizations completed their legally defined social mission. This meant most certified social enterprises usually accomplished their social aim. The number of social enterprises that could not accomplish their social aim was 20 in 2011 and 21 in 2012. In 2012, the number of these organizations was one to six in each market, so the difference among the numbers was not significant.

Reviewing business profits, 15.2% (98) and 17.3% (130) of certified social enterprises realized positive figures in 2011 and 2012 respectively. The proportion of companies realizing positive business profit was relatively high in social enterprises in the environment, social welfare, nursing and home care services, and the ‘other’ markets, at about 17% to

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<sup>7</sup> The number of social enterprises that could be considered to judge the achievement of their social mission was 551 in 2011 and 635 in 2012. However, the number of organizations for which the researcher could see their business profits was 645 in 2011 and 751 in 2012. The difference between the numbers in the same year occurred because there was no clear criterion to measure the accomplishment of social missions for the community contribution type and other type of social enterprise. In other words, the number of the organizations for which the KOSEA could measure the achievement of their social mission was 551 and 635 in 2011 and 2012 respectively.

25%. However, more than 90% of social enterprises in healthcare, culture, and education showed a business deficit in 2010 and 2011. Using the researcher's criteria for evaluating sustainability, social enterprises that conducted their business in the environment, social welfare, nursing and home care, and the 'other' market were comparatively more sustainable than organizations in the other markets: healthcare, culture and education.

From this information, the researcher roughly estimated the sustainability situation of Korean social enterprises. When the researcher's condition was applied, about 15% to 17% of social enterprises could be placed in a sustainable category (innovative model, see Table 4-2). Most social enterprises, about 85%, could be categorized as a less sustainable group. Most of the 85% organizations could be classified as coming under the label of the quasi-public company model. Around 3.5% of the total number of social enterprises could be divided into the quasi-private company model or the incompetent model.

## **5.4 Policy Context**

Stakeholders in Korea believe that recent development of the social enterprise sector in the country, has been led by a strong government involvement. (Bidet and Eum, 2011; Hwang et al., 2011; Park, 2012). According to the Social Enterprise Promotion Plan (2011), between 2007 and June 2011, 532 organizations were certified as social enterprises and in these 13,636 people were working, which represented a significant increase compared to the 51

social enterprises and 2,539 employees in 2007. As a backdrop to this rapid rise, there were vigorous policy initiatives by the government, among which the most prominent one could be said to be the financial subsidy (Ryu, 2011; Song, 2011). As seen in Table 5-11, since the enforcement of the SEPA in 2007, the Korean government has been spending a budget of more than ₩121 billion every year.

Behind the comprehensive public support there is a social enterprise certification system because most public programs are designed for certified and prospective social enterprises. However, in spite of the fast growth, a number of stakeholders have raised concerns that the top-down approach currently followed will not achieve the government's goal that social enterprises should gain competitiveness and survive without public support (Kim et al., 2011; S. Kim, 2009; Kim, 2010b; Mendell et al., 2010).

Table 5-11) Annual budget for social enterprise promotion in Korea

	2007	2008	2009	2010	2011	2012
₩ (billion)	121	140	189	149	162	176
£ (million)	6.9	8.0	10.8	8.5	9.2	10.1

Source: Unpublished internal document of the MOEL

### **5.4.1 Certification System**

#### **Certified Social Enterprises**

All organizations in Korea have to be certified by the government if they want to do business as social enterprises.

It is impossible for organizations without a certification by this Act to use a label of social enterprise (*Social Enterprise Promotion Act*, 2010 Article 19)

There are several contextual reasons why the certification system was employed in the country. On the one hand, the Korean government worried about its previous, unsustainable, job creation initiatives and became interested in social enterprise as a sustainable construct of employment. The government needed to define clear conditions for identifying recipient organizations, because it intended to supply various supports to promote social enterprises in the short term. The government, on the other hand, felt it should shape and improve the reputation of these organizations that were relatively new to people at that time, and do this through with regulations (H.-W. Kim, 2011a). Details of the discussion surrounding the certification system will be presented in the section on policy recommendations in Chapter 7.

The SEPA set up seven conditions that certified social enterprises had to meet (*Social Enterprise Promotion Act*, 2012 Article 8). First, the Act requires the formation of types of organizations as defined by the current Acts, for example corporate bodies by the Civil Act,

companies by the Commercial Act, cooperatives by the Consumer Cooperative Act, and non-profit organizations by each Act. Social enterprises originating from for-profit organizations such as companies limited by shares can be called profit seeking social enterprises while those based on non-profit organizations are called non-profit social enterprises. Second, these organizations must produce and sell goods and services, employing paid workers. Companies have to make labour contracts with workers and pay them at least a minimum wage. Third, the main purpose of organizations should be to address social issues. For example, organizations primarily aiming to employ the disadvantaged have to hire as many as 30% of their employees from this group. If the main goal of an organization is the provision of social services to socially weak groups, 30% or more of the organization's total customers should consist of the vulnerable. Fourth, a decision-making process in which stakeholders such as consumers and employees participate is needed. Fifth, the total revenue generated from trade for the six months immediately before the month of applying for certification should be 30% or more of the organization's total labour costs during the same period. Sixth, organizations should have articles of incorporation or regulations that describe their purpose, business activities, title, decision-making process, and profit distribution, and that give the address of a main office. Finally, in the case of companies governed by the Commercial Act, if a profit is generated for distribution in each fiscal year, these organizations should reinvest two thirds or more of this profit for social purposes.

If organizations meet all the conditions described above, the MOEL can certify them as social enterprises. Certified organizations, however, can lose their status as social enterprises if they obtain their certificates in illegal or inappropriate ways, such as by using counterfeit documents, or if they cease to meet the conditions after receiving their certificates.

All certified social enterprises must submit annual reports that describe their business results for the previous year and a business plan for the current year, the degree of achievement of their social purpose, their accounting, and the operating situation of participatory decision-making each year. A total of 1,124 social enterprises were certified by 2014 (Korean Social Enterprise Promotion Agency, 2014) and the Korean Government has set a target of promoting 2,000 social enterprises by 2015 and 5,000 by 2020.

### **Prospective Social Enterprises**

Prospective social enterprises are defined as organizations that meet four essential conditions out of the seven conditions described in the above section and that are expected to evolve into certified organizations within three years (*Social Enterprise Guide Book*, 2012). This system was started in August 2010 to encourage local governments to promote social enterprises more actively at the regional level. By 2012 all local governments at the level of metropolitan city and province had enacted Social Enterprise Promotion Ordinances as a legal basis for the designation of prospective social enterprises. From 2013, further forms of prospective social enterprise began to be designated by central Ministries such as the MOHW, or the Ministry of Education. In this way, prospective social enterprises could be

designated by local governments and each ministry, while certified social enterprises were determined by the MOEL.

Organizations hoping to become prospective social enterprises have to be organizations constituted according to the current Acts, to pursue a social purpose as their main goal, and to undertake business activities employing more than one paid worker. In addition, companies governed by the Commercial Act must invest two thirds or more of their distributable profit for social purposes. By 2012, 16 Local governments had designated 1,118 prospective social enterprises. Of these, 61 (5.5%) organizations were confirmed as certified, while 87 (7.8%) lost their status as prospective social enterprises by the end of June 2012 (Ministry of Employment and Labour, 2012).

#### **5.4.2 Important Public Support Programs for Social Enterprises**

The Korean Government has carried out a variety of policy programs to promote social enterprise, and these include SEJCP or wage subsidy programs, social insurance subsidy programs, management support programs, programs to subsidise research and development, programs to provide financial assistance, tax benefit programs, and programs providing priority in public procurement. Most of these policy tools focus on the cost side, covering various costs, including labour costs, management, and research and development costs, financial costs and taxes, while priority in public procurement provides for the revenue side. Table 5-12 on the next page gives a brief summary of policy programs covered.

Table 5-12) Social enterprise promotion programs

Category	Name of program	Contents of program
Cost side assistance	SEJCP (wage subsidies)	Providing minimum wage and 9% of social insurance premiums charged to employers for newly employed workers
	Social insurance subsidy	Subsidizing four key social insurance premiums for all workers assuming they are paid minimum wage
	Management support (Consulting fee subsidies)	Providing management consulting service through designated professionals and subsidized consulting fees
	Research and development subsidies	Subsidizing research and development, marketing, PR and other long term oriented investment
	Financial support	Lending or providing guarantees for loans with low interest rates and long terms
	Tax benefits	Exempting from corporate tax, income tax, and taxes on purchasing and possessing assets
Revenue side assistance	Priorities in public purchase	Setting priority on goods and services produced by social enterprises in public sector's procurement
Creating social enterprise ecosystem	Nationwide network for social enterprise promotion	The ethical consumption movement, campaign for purchase of social enterprise products, fund-raising and one organization one social enterprise movement
	Social entrepreneur academy	Instituting a short term course and the graduate course to nurture competent social entrepreneurs possessing social vision, innovative ideas and management skills
Institutional assistance	Korean Social Enterprise Promotion Agency (KOSEA)	Fostering social entrepreneurs, inventing business models, supporting commercialization, monitoring and evaluation of social enterprises, support to form and operate networks of and social enterprises

### SEJCP or Wage Subsidies

SEJCP or wage subsidies to social enterprises have been a strong incentive to encourage a number of organizations to become certified as social enterprises (Hwang et al., 2011). The subsidy as an essential promotion policy has contributed to the quantitative growth of Korean social enterprise. Hwang et al. (2011) explain that, considering the high percentage



of labour costs in total sales costs, reaching about 55%, the wage subsidy has been an effective aid to social entrepreneurs. The amount of public finance used for wage subsidies out of the annual budget for social enterprise promotion accounts for around 70% (H.-W. Kim, 2011a).

The main idea of the SEJCP is to help social enterprises to reduce labour costs. The program pays entrepreneurs part of the wage and social insurance costs of new employees who can be categorized as the disadvantaged, so that managers can operate companies more confidently without too many worries about meeting the labour costs. The aid is only given for employees who are newly hired after the day when the decision to subsidize is taken, so it is intended to stimulate the creation of new jobs rather than the preservation of existing jobs.

The amount of wage subsidy is calculated by multiplying the number of newly employed workers by the minimum wage per hour, as decided by the MOEL for the year – a figure of ₩4,860 in 2012. The social insurance premium subsidy goes to employers, who are responsible for paying part of the premium. The amount of subsidy is 9% of the actual social insurance premium per newly employed worker.

Basically, the number of workers eligible to be supported by the program is limited to no more than 30 people per company. The duration of the benefit is up to three years for certified social enterprises and two years for prospective social enterprises. Therefore, if a prospective social enterprise becomes a certified one, it will be supported for five years. The

ratio of support, however, decreases annually. For certified social enterprises, the subsidy is limited to 90% of the amount calculated above for the first year, 80% for the second year, and 70% for the last year, while for prospective enterprises the ratio goes from 100% for the first year to 90% for the second year. The formula to calculate the amount of the subsidy is: (actual hours at work × minimum wage + 9% of social insurance cost) × annual support ratio (70-100%) (*Social Enterprise Guide Book*, 2012).

The size of the program, represented by the number of employees in benefit, increased significantly from 2,367 workers in 2003 to 27,887 in 2009 (Ministry of Employment and Labour, 2012). However, since 2010 the number of people in the program has decreased to 10,873 and 11,949 in 2010 and 2011 respectively as policy focus moved gradually from financial aid to creation of better environment for social enterprise business.

### **Social Insurance Subsidy**

The second type of important public support is the social insurance subsidy program. This started in 2010 to support self-sufficiency in social enterprises. The program is intended to subsidize social enterprises with part of four key social insurance premiums that companies have to pay (H. Kim, 2011). The four key types of social insurance in Korea mean the National Employment Insurance, the National Industrial Accident Compensation Insurance, the National Health Insurance and the National Pension Scheme.

The program has a similar aspect to the SEJCP in that it aims to reduce labour costs in social enterprises and encourage enterprises to create more job opportunities. Also, both programs are intended to subsidize the social insurance premium. Because of these similar aspects, social enterprises that are already taking part in SEJCP are not allowed social insurance subsidy. Meanwhile, social insurance subsidy has a wider recipient base than that for the SEJCP program. Although the latter is limited to 30 newly hired workers per company, the former is applicable to all employees, regardless of when they were employed (*Social Enterprise Guide Book*, 2012).

The amount of the subsidy is the partial amount of the four key social insurance premiums that employers should pay (Ministry of Employment and Labour, 2012). It is assumed that all employees work for 40 hours a week and are paid the minimum wage when the subsidy is calculated. The amount has been increasing as the level of social insurance premiums and the minimum wage have risen. The maximum period of benefit is four years. In 2010, the amount of funding used for social insurance subsidies was ₩1.4 billion. This increased to ₩3.2 billion in 2011. Expenditure of ₩4.8 billion was planned to be spent for 2012.

### **Management Support or Consulting Fee Subsidies**

Wage subsidies can be an instant remedy for the profitability problems that social enterprises face, but when the period of the subsidy is over, the companies can experience the same problems again. Management support, which started in 2009, came from the idea that social enterprises needed more long-term based and fundamental assistance, rather than just one-

off assistance, with covering costs, so that the companies can gain profitability and competitiveness on their own (H. Kim, 2011).

Management support means that institutions or firms designated by government provide social enterprises with professional management consultancy and the government subsidizes the fees (*Social Enterprise Guide Book*, 2012). There are different types of consulting for companies at different stages of business: subsidies for basic consulting for start-ups; and specialized consulting for growing and mature companies.

Basic consulting is for companies in their start-up stage. The main target of the support is newly certified social enterprises and prospective social enterprises. In particular, companies with weak management systems, for example companies with sales below ₩100 million or fewer than 10 employees, have priority in receiving this support (*Social Enterprise Guide Book*, 2012). Basic consulting is primarily focused on establishing basic management structure including accounting systems and human resource management systems. Subsidies for basic consulting are limited to three times for each company and the maximum amount of the subsidy is ₩3.3 million a year. There is nothing for companies to pay. In 2011, 184 companies received this support while in 2012, 400 companies were designated for it (Ministry of Employment and Labour, 2012).

Specialized consulting offered to growing and mature companies is divided into three categories including mentor consulting, project consulting and sustainability consulting (*Social Enterprise Guide Book*, 2012). Mentor consulting is designed to help social

enterprises or prospective social enterprises at their growing stage. Successful social entrepreneurs or experts in the social business field are designated as mentors to each company and they perform a thorough review of the organization's management system and give advice on how to improve it. The maximum amount of the subsidy for mentor consulting is ₩10 million per one session and ₩50 million for five years. Companies have to pay 10% of the cost when it exceeds ₩3 million.

Project consulting and sustainability consulting are for the companies that have reached a mature stage and are trying to stand on their own feet (*Social Enterprise Guide Book*, 2012). Project consulting is consulting about a specialized subject rather than overall management. New business strategy, new business models, new technologies and products, new design, marketing, PR, performance management, cost saving, restructuring, and mergers and acquisitions (M&A) can be its focus. Sustainability consulting is especially to help companies when their wage subsidies are nearly finished or have already finished and it focuses on the cost-saving side. Both types of consulting are provided only to certified social enterprises and not to prospective social enterprises. The maximum subsidy is ₩20 million for one session and ₩50 million for five years, and companies have to pay 10% of the cost exceeding ₩3 million. The budget for management support as a whole in 2012 was ₩4 billion, with ₩2 billion for basic consulting and ₩2 billion for specialized consulting (Ministry of Employment and Labour, 2012).

## **Research and Development Subsidy**

Social enterprises don't usually have abundant cash flow, which makes it difficult for them to make a long term investment in research and development and marketing. Research and development subsidy, started in 2010, is intended to subsidize the research and development and marketing activities of certified and prospective social enterprises. The subsidy offered is 90% of costs that don't exceed ₩70 million a year for certified social enterprises and that don't exceed ₩30 million a year for prospective social enterprises (*Social Enterprise Guide Book*, 2012). The subsidy is given for up to five years and the total subsidy for five years is ₩200 million.

The subsidy can be used only for research and development and marketing, for example, for the development of new technologies and products, rebranding, launching, promoting and advertising products, upgrading the qualities of products, acquiring patents and any other activities entailing the activities above. Paying wages, benefits and training costs, insurance fees, financial costs, accounting and legal costs is prohibited and is punished through enforced refunding or other methods. In 2010, 679 companies altogether were endowed with ₩12 billion. According an unpublished governmental document (2012), 945 companies were given ₩16 billion in 2011. The budget for 2012 was ₩22 billion.

## **Financial Support**

Social enterprises usually suffer difficulties in borrowing money from financial institutions

to purchase facilities, buildings or land because of their low credit, caused by their relatively low profitability and small size (H.-W. Kim, 2011a). To improve the situation, the government came up with several programs to enable social enterprises to use existing financial support for small and medium sized enterprises for these purposes.

There are a couple of types of financial support designed especially for social enterprises: loan guarantees and fund of funds. Loan guarantees, initiated in 2012, provide social enterprises with loan guarantees when they try to borrow money from financial institutions (*Social Enterprise Guide Book*, 2012). The guarantee is offered by the Loan Guarantee Fund, a government-endowed fund. The benefit aims to provide loan guarantees to certified social enterprises that are sound and healthy but do not have easy access to the financial market. The amount of credit to be covered is ₩400 million per company, and the loan is refundable in five years, with a 3.7% interest rate for non-profit social enterprises and a 4.6% rate for-profit ones. As of June 2012, ₩1.4 billion had been guaranteed for 17 cases.

The fund of funds, set up in 2011, is intended to attract money from the private sector for social enterprises (H.-W. Kim, 2011a). To build up a ₩4.2 billion fund for this, the MOEL invested the biggest part, ₩2.5 billion, Hyundai Motors and SK Corporation each invested ₩0.5 billion, and Mirae Asset and Mirae Venture Invest together invested ₩0.7 billion. The fund is operated by Mirae Asset, one of the most renowned asset management companies in Korea (Ministry of Employment and Labour, 2012).

There is another financing option for social enterprise: the Micro Credit Fund (*Social Enterprise Guide Book*, 2012). The Fund lends small amounts of money without requiring any guarantee to financially marginal groups who cannot access banks easily. ₩10 billion is available for social enterprises for upgrading or equipping their facilities. The credit line is ₩200 million, and the loan rate is below 4.5% and refundable in five years. Set up in 2008, the fund has lent social enterprises ₩2 billion in 2008, ₩3.8 billion in 2009, ₩5.5 billion in 2010 and ₩6.4 billion in 2011. The amount of ₩10 billion was set aside for social enterprises in 2012.

Social enterprises mostly fall into the category of small and medium sized companies, which enables them to access a variety of benefits that are already being provided to small and medium sized companies. There are a few lending or guaranteeing programs open to social enterprises. First of all, the Policy Loan for Small and Medium Sized Enterprises, available to social enterprises since 2010, lends ₩4.5 billion per company at a rate lower than the market rate. As part of the ₩3.3 trillion whole fund, ₩10 billion is set aside for social enterprises only. Hope Giving Loan Guarantee, designed to provide loan guarantees to regionally-based small businesses, has been open to social enterprises since 2011, and is another financial support. The limit for a guarantee is ₩100 million for purchasing facilities and ₩50 million for operation. The period of return is five years and the interest rate was around 6% in 2012. The size of the fund as a whole is ₩35 billion a year. However, in 2011, ₩30 million was guaranteed for one social enterprise alone.



## **Tax Benefits**

Social enterprises produce social services that the public sector is responsible for providing and create job opportunities that bring about a virtuous circle in society. It is for this reason that social enterprises are able to enjoy vast tax exemptions.

The period of exemption from corporation and income tax for social enterprises is four years. For the first two years from when the first income earned, a social enterprise is exempt from 100% of corporation tax and income tax, and this exemption is reduced to 50% for the next two years (*Special Tax Treatment Control Act*, 2014). In addition the corporation tax rate on certified social enterprises is not to exceed 7%. Taxes on purchasing real estate and other assets are reduced by 50%, while taxes on possessing assets are decreased by 25% (Ministry of Employment and Labour, 2012). Donations to non-profit certified social enterprises not exceeding 10% of the income of a donating corporate or 30% of the income of a donating individual are exempt from basic income tax.

## **Priority in Public Procurement**

The SEPA stipulates that governments should require priority to be given to social enterprises' products and services in their procurement (*Social Enterprise Promotion Act*, 2012 article 12). When governments evaluate enterprises that apply to supply goods and services to the public sector, certified social enterprises can be given a few additional points. In addition, central and local government agencies and government sponsored entities should

submit to the MOEL their plans to purchase products and services from social enterprises for the year and their purchasing results over the last year. The results are one of the assessment standards used when central government evaluates local governments and government sponsored entities every year. In 2009, 108 entities in the public sector purchased ₩118 billion worth of social enterprises' goods and services. ₩180 billion worth was bought by 197 entities in 2010 and ₩165 billion worth was purchased by 248 entities in 2011 (Ministry of Employment and Labour, 2012).

### **Social Entrepreneur Academy**

The project of a social entrepreneur academy, based on Article 10 of the SEPA, aims to nurture competent social entrepreneurs possessing social vision, innovative ideas and management skills. The program can be divided into two categories, a short term course and a graduate course (Ministry of Employment and Labour, 2012). Institutes or universities that provide the courses are selected by the KOSEA. In the short term course, which includes eight to 100 hours of classes, the entitled institutions open classes such as case studies, project realization, management (finance, audit and marketing), etc. normally aimed at social entrepreneurs or future social entrepreneurs. Six universities operated the graduate courses in social enterprise in line with the social entrepreneur academy project in 2012. These universities, funded by the KOSEA, carry out research into creating necessary curriculums to educate competent social entrepreneurs. The budget for the social entrepreneur academy was ₩735 million in 2012.

## **Korean Social Enterprise Promotion Agency (KOSEA)**

The KOSEA was instituted on 31 December 2010 according to the Article 20 of the SEPA. In accordance with the article, the MOEL created the KOSEA for the purpose of the efficient promotion of social enterprises.

The major missions of the KOSEA are as below:

- Fostering social entrepreneurs, inventing business models and supporting commercialization
- Monitoring and evaluation of social enterprises
- Supporting the formation and operation of networks of social enterprises
- Building and operating the web sites and the integrated information systems of social enterprises
- Other social enterprise-related activities assigned by the laws and regulations

*(Social Enterprise Promotion Act, 2012 article 20)*

Besides above the missions, the KOSEA supplies social enterprises with various consulting services concerning management, audit, tax, labour and related skills. The work of international exchange and cooperation for social enterprise development is also carried out by the organization. The government can contribute to the necessary costs for creating and operating the institute. According to source of the MOEL (2012) the total budget from the

government for the organization of this work in 2012 was ₩24 billion and the maximum number of people who worked in the KOSEA was 42.

#### **5.4.3 Influence on the Sustainability of Social Enterprise**

The development of Korean social enterprises can be explained by government initiatives that are mainly supported by the certification system and financial subsidies. Regarding the certification system, Kim (2011a) argues that the system has achieved its purpose of shaping positive images of social enterprises for citizens. This top-down approach, principally conducted through certification and wage subsidy, has, however, been criticized by a number of researchers and practitioners (Choi, 2012; Hwang et al., 2011; Lee, 2009; Park and Wilding, 2012). The main point of their arguments is that the government-led movement has lessened the possibility of organizational sustainability. Specifically, Park and Wilding (2012) criticize Korean governmental social enterprise initiatives for focusing on instrumental purposes, such as job creation, that use a limited range of social enterprise activities appropriate to address a wider range of social issues. Moreover, the certification system has damaged the autonomy of social enterprises as it has made these organizations more dependent on the government.

Researchers point out several problems of current social enterprise promotion policy, which is not believed to make Korean social enterprise sustainable. First of all, social enterprise policy focuses too much on the direct wage subsidy (H.-W. Kim, 2011b). For example, two

thirds of the government budget for social enterprise promotion policy, ₩108 billion out of ₩149 billion, was spent on the SEJCP in 2010. Support for the labour costs may help social enterprise to expand business or to launch new projects. Nonetheless, highly concentrated allocation of public funds to the direct labour cost may make social enterprise dependent on public support and cramp their sustainable growth. It has a tendency to lead to excessive employment, which increases the risk of strict adjustment of employment once the government support decreases or stops (H. Kim, 2011). Hwang et al. (2011) maintain that the net profits of certified social enterprises decreased in 2009 compared to 2008 in spite of increasing sales and this phenomenon occurred because of the excessive employment influenced by the wage subsidy. According to Jeon et al.'s (2012) research, the financial sustainability of Korean social enterprises is evaluated as critically low. 74% of social enterprises, which had been financially supported by government from 2007 to 2009, showed negative business profits in 2010 when the support stopped. In addition, experts believe that the financial subsidy is likely to result in creating many undesirable social enterprises which are mainly interested in taking the subsidy (Hwang et al., 2011).

Secondly, public procurement does not work very well in practice and support for financing is not enough (Choi, 2012; Jeon et al., 2012; H. Kim, 2011). In spite of the SEPA that regulates governments to buy the products or services of social enterprises, the Act does not function properly because other pieces of primary legislation relating to procurements for central and local governments do not consider such priority for social enterprises.

Thirdly, in a complete enumeration survey in 2012, the largest number of social enterprises, 25.1%, confessed that their weakest point was financial strength (Jeon et al., 2012). Social enterprises have trouble in raising funds because there are not enough accessible sources for money in the country. In terms of financing, the companies have been chiefly dependent on both government grants and loans from the banking sector, non-banking sector and public sector (Hwang et al., 2011; Jeon et al., 2012). Attraction of investment, activity for fund-raising or loans from micro-credit institutions, has been very infrequent.

Finally, it is said that most support policies focus on social enterprises in their initial stage, and stop four years later when organizations are certified as social enterprises (Choi, 2012; H. Kim, 2011). Although enterprises in their initial stage need intensive support, maturing ones also require various kinds of support, such as financing or market sales, to take further steps.

Table 5-13) Period of government support

Year	-2	-1	1	2	3	4	5	6	7	8	9
Wage subsidy											
Social insurance subsidy											
Expert wage subsidy											
Management support											
Corporate tax benefit											

Source: Kim (2011, p. 217)

Facing the above criticism, to address the sustainability problem of social enterprises, the Korean government started to change its policy direction from direct to indirect support. In other words, instead of reducing the wage subsidy it is increasing support for management consulting, research and development subsidy, public procurement and loans.

## 5.5 Conclusion

This chapter has reviewed three structural elements that are believed to affect the sustainability of Korean social enterprise. With regard to the social economy, researchers began to be interested in the sector fairly recently, so there are not enough academic findings about the sector. In the researcher's view, in Korea, cooperatives, NPOs, social enterprises, similar social enterprises and mutual societies can be categorized as social economic organizations. The social economy in the country could be indirectly estimated as being comparatively small if we look at Salamon and Sokolowski's research in 2004, even though the researcher could not find alternative data for a more exact calculation. The comparatively small size of the social economy might mean there needs to be further chance to enlarge and reinforce the sector, so that it can be recognized as a foundation for sustainable social enterprises. Development of the social economy could have a positive influence on sustainability, since the sector might be a source of various necessary resources: social entrepreneurs, finance, social networks and cooperative marketing.

Regarding the market, the researcher showed the categorization of the social enterprise market, as well as the shape and financial outcomes by market type, through descriptive secondary analysis of data. The researcher hopes to point out that the official categorization of market types by the MOEL and the KOSEA should be modified into more specific categories to bring better academic research to bear on sustainability by industrial types. Applying the researcher's criteria to evaluate sustainability, around 16% of Korean social

enterprises were considered to be sustainable, even though more than 96% fulfilled their social mission. The estimation, however, is not a decisive judgement since the calculation was not based on long-term time series data.

Finally, various and strong social enterprise promotion policies in the country have been implemented since 2007. The core legal structure can be described as a certification system and the most influential program is the SEJCP (wage subsidies). Facing critical concerns that financial subsidies could make social enterprises dependent on the state and less sustainable, the policy direction has changed into indirect measures, such as shaping a better environment for social enterprises to operate in.

The next chapter will explain how and how much these factors influence the sustainability of Korean social enterprises based on case study analysis.



## **CHAPTER 6      CASE STUDY FINDINGS**

### **6.1 Introduction**

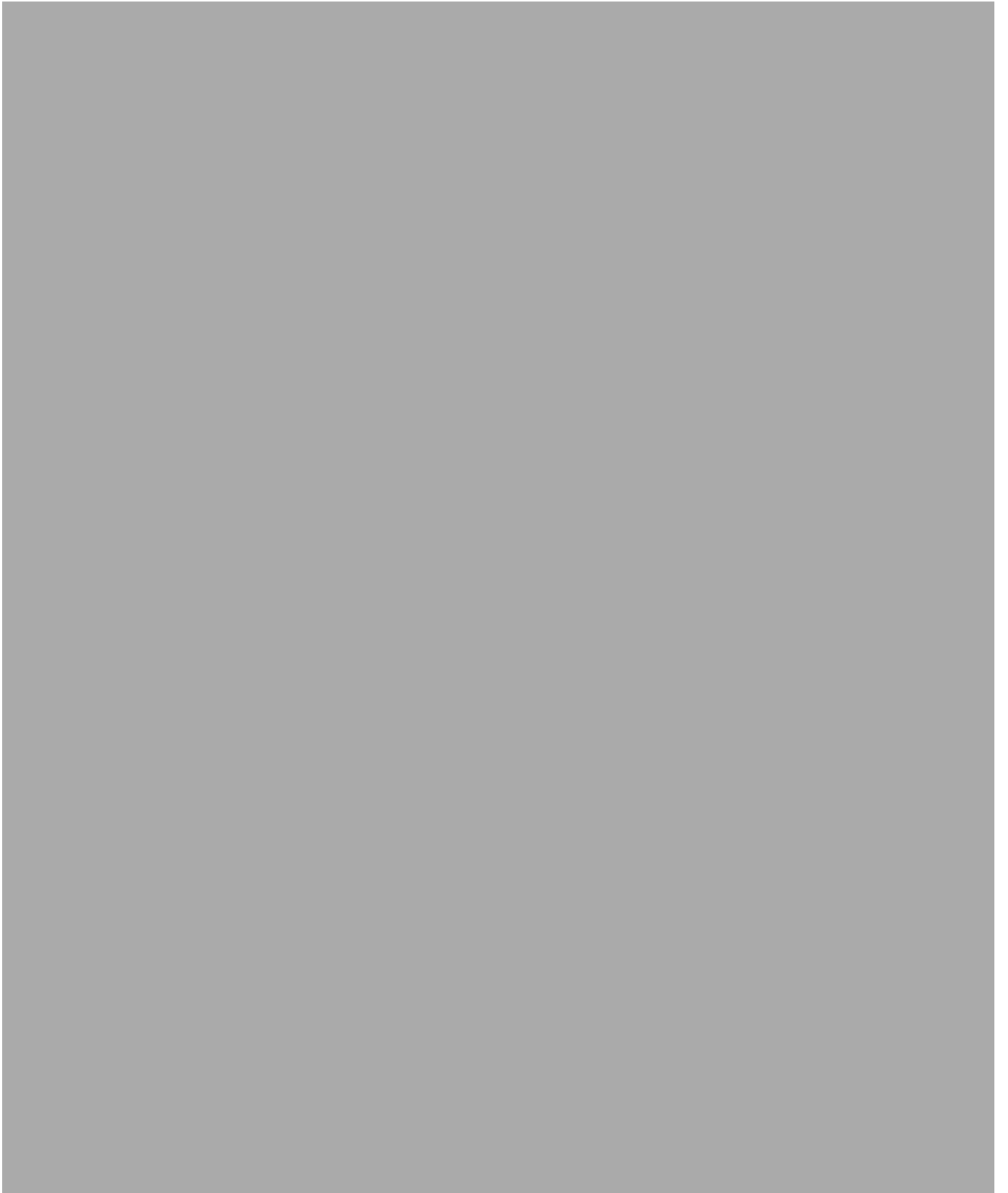
This chapter aims to present the findings of the case studies employed to explore the influences of structural and agency drivers on organizational sustainability, drawing on the researcher's comprehensive framework. Basically, each section of the chapter corresponds with research questions about sustainability and influence of structural and agency factors on sustainability.

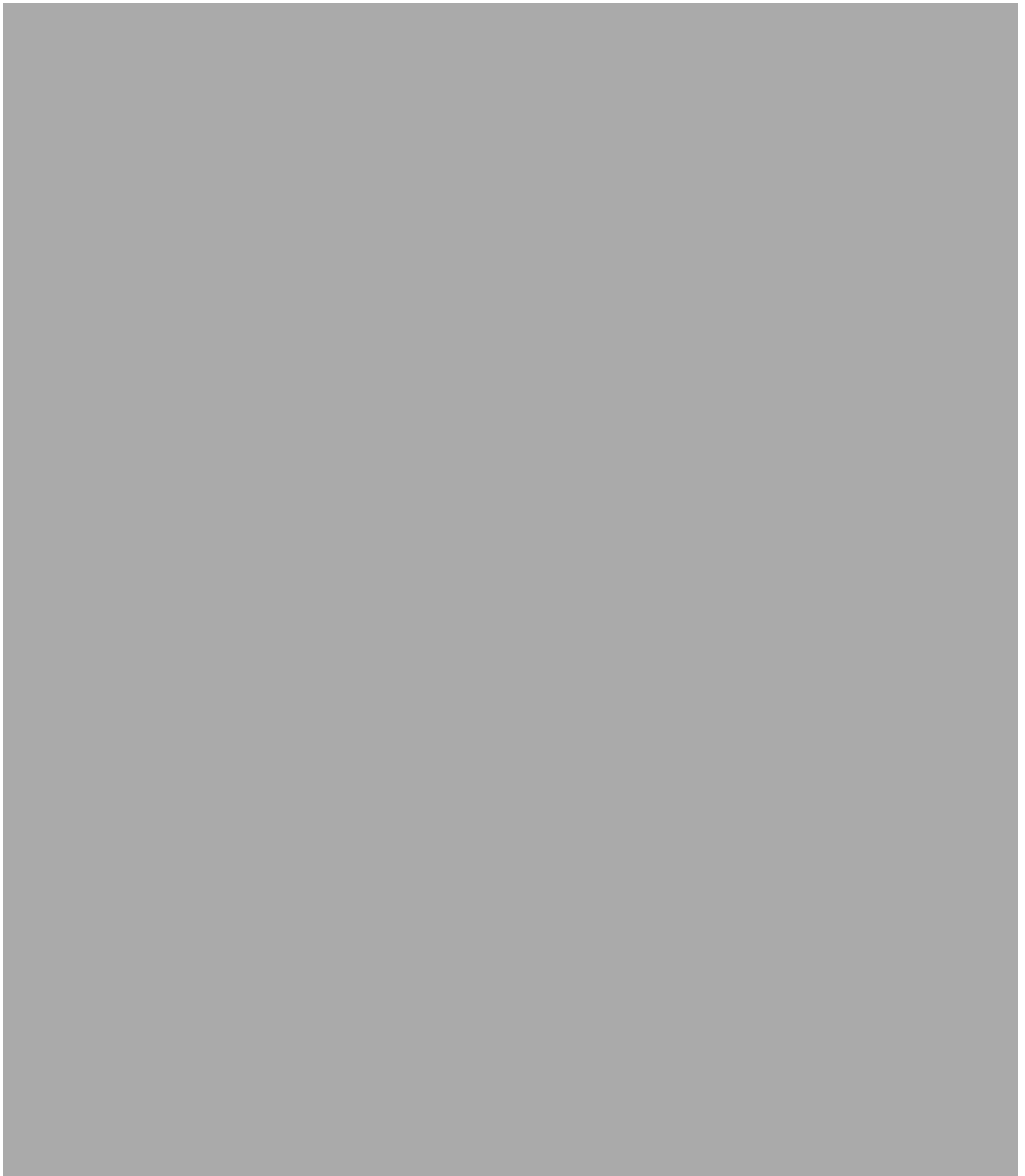
As explained in the methodology chapter, the findings of the research are principally presented in narrative form. Even though there are a number fragmented and disjointed parts in the interviews, the researcher found several comparatively fruitful stories that could be constructed as structured narratives likely to meet Labov's criteria (Labov, 1972). For these relatively structured stories, the researcher strove to identify Labov's six elements (abstract, orientation, complication action, evaluation, resolution, and coda). Employing the scholar's ideas, the researcher indicates these elements on parts of the constructed narratives, even if the points identified in the study do not exactly accord with Labov's categorization. Therefore, the six elements used in the research have similar interpretations to those of Labov.

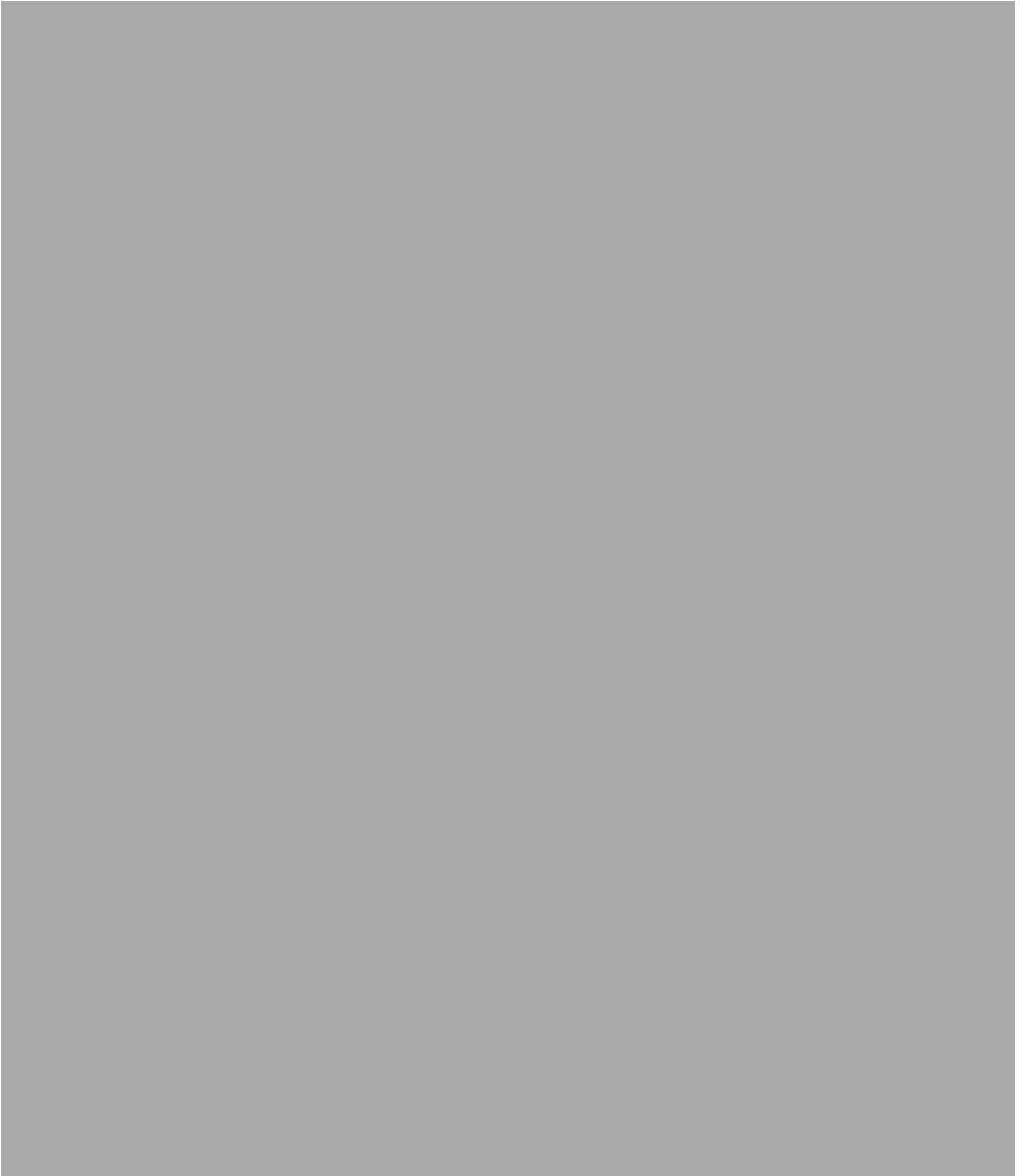
This work starts with an introduction to each case and the outline gives a small amount of factual information focusing on geographical location, business type, start-up year and size. Then it progresses toward findings regarding to the research questions. First of all, it shows how the term sustainability of social enterprise is understood and used in the Korean context. Second, the influence of structural factors (social economy, market type and public policy) is explained drawing on interviewees' understandings of the relationship. Finally, the researcher illuminates how stakeholders understand the effects of agency drivers on organizational sustainability.

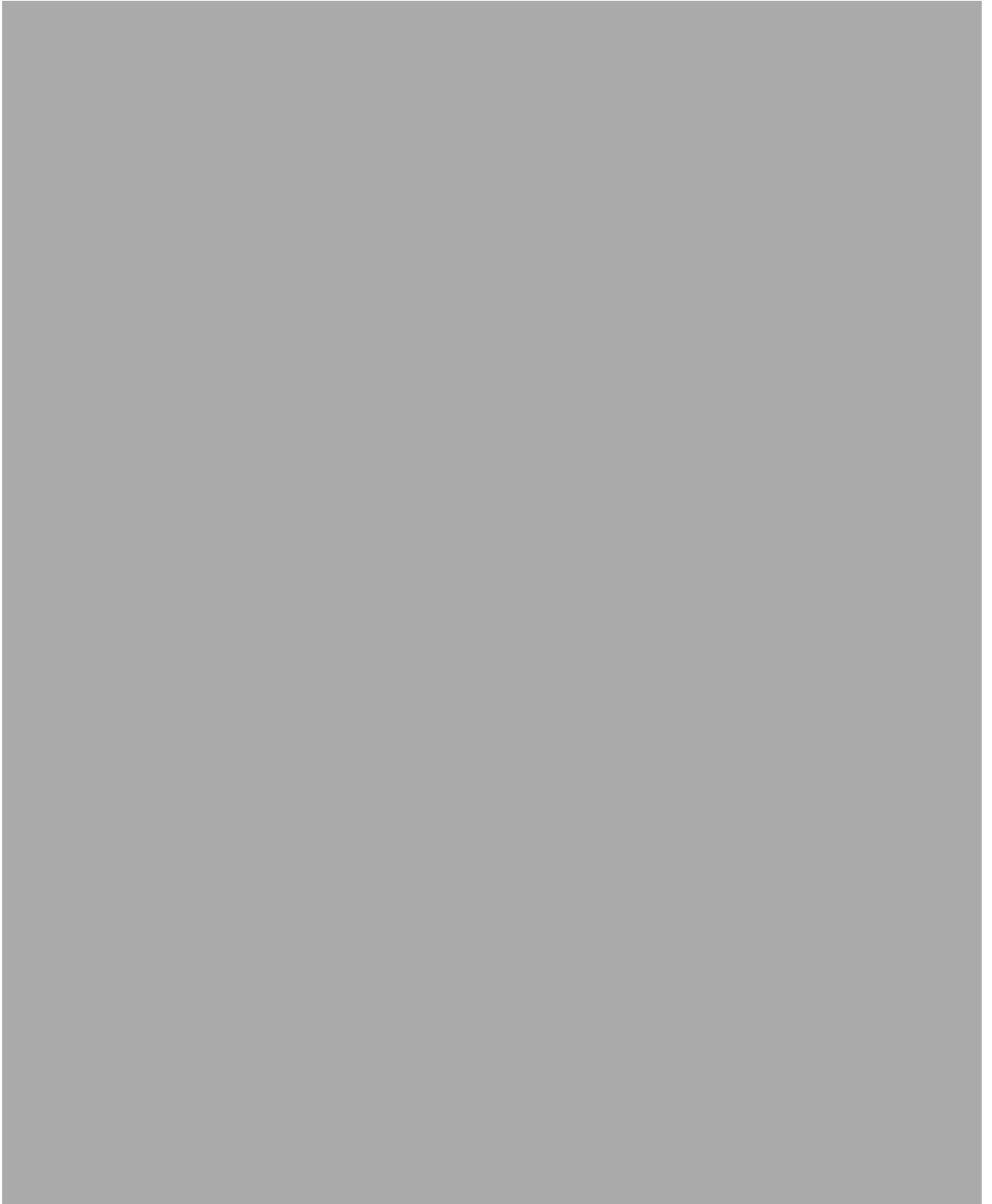
## **6.2 General Information on Cases**

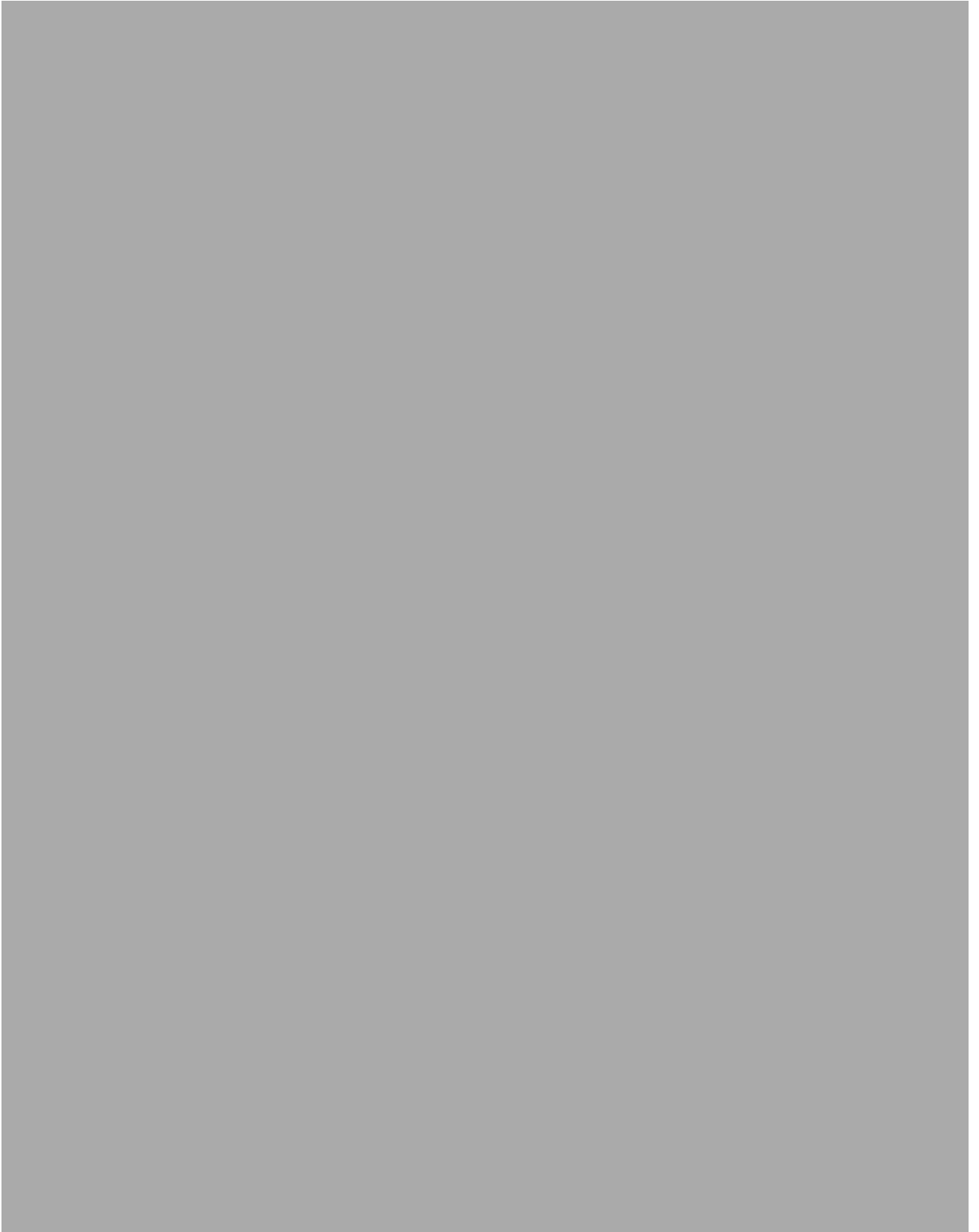


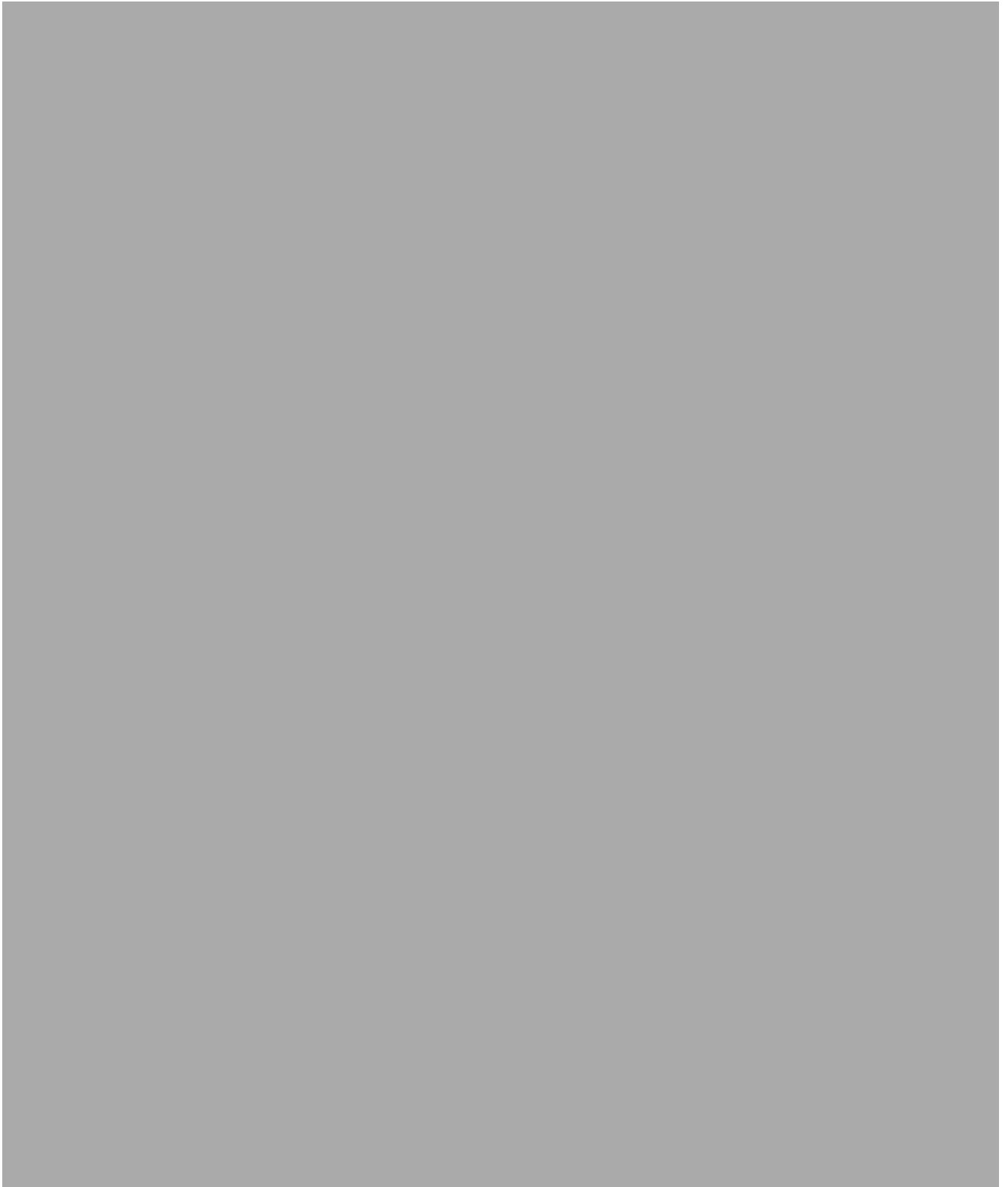




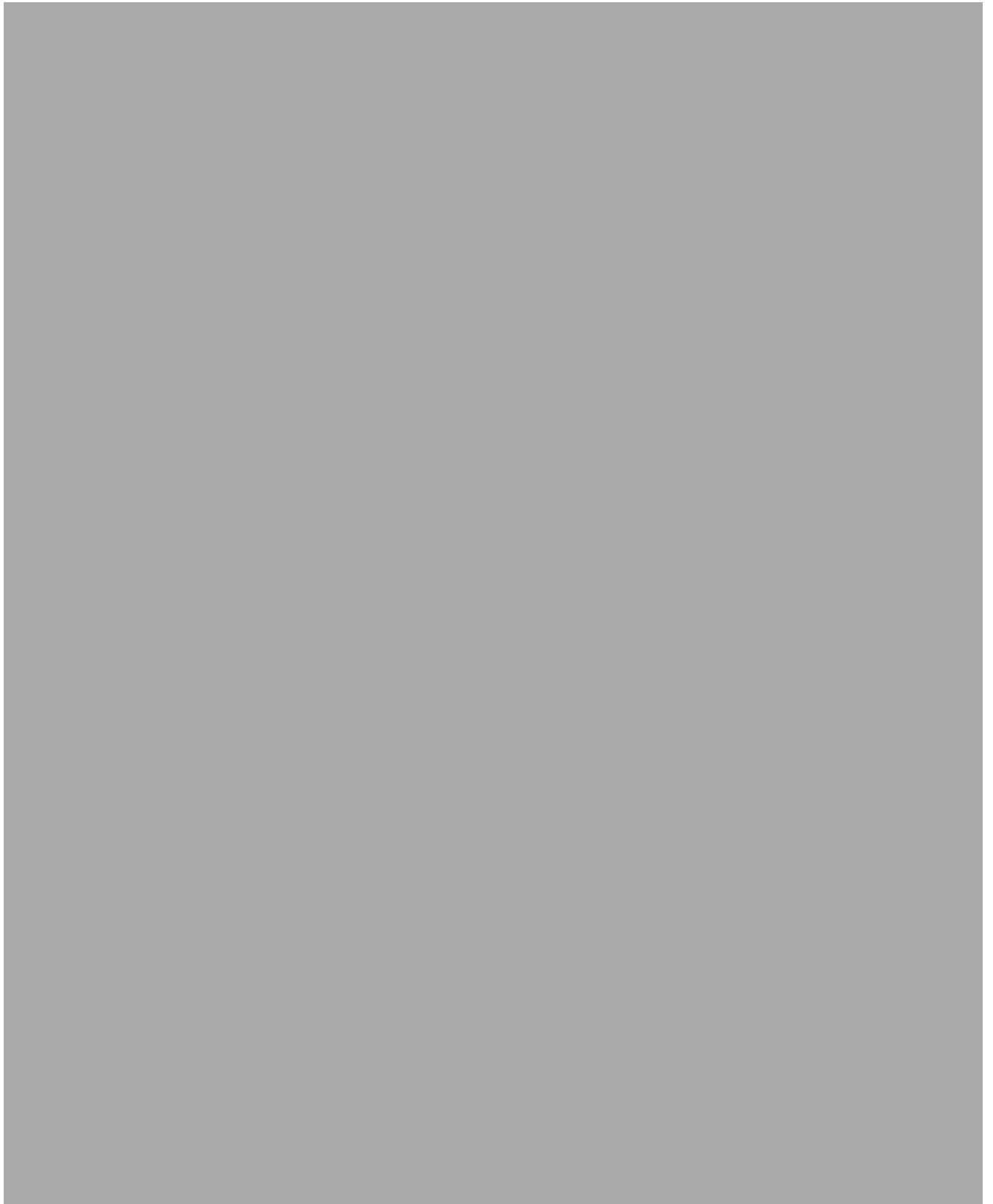


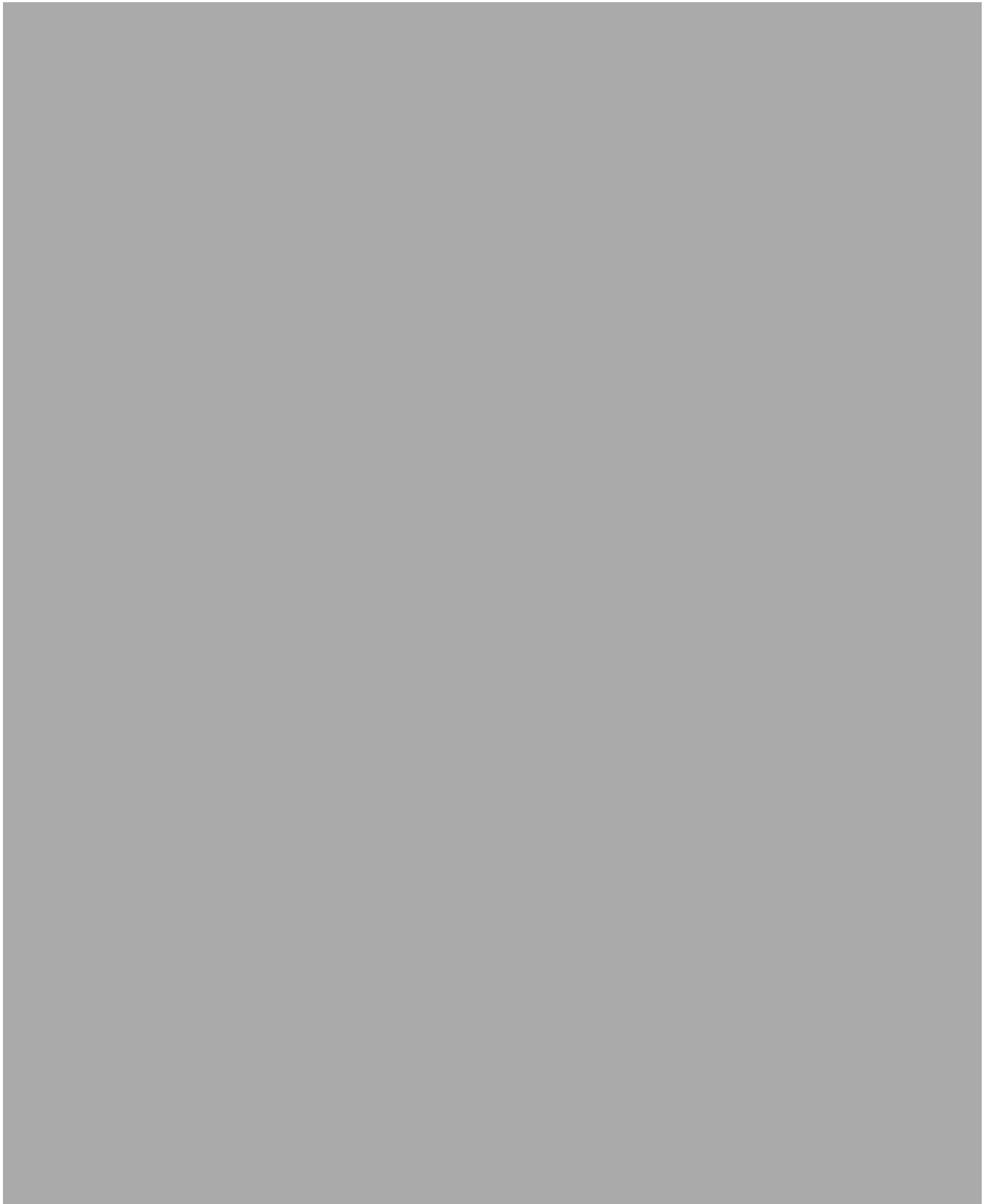


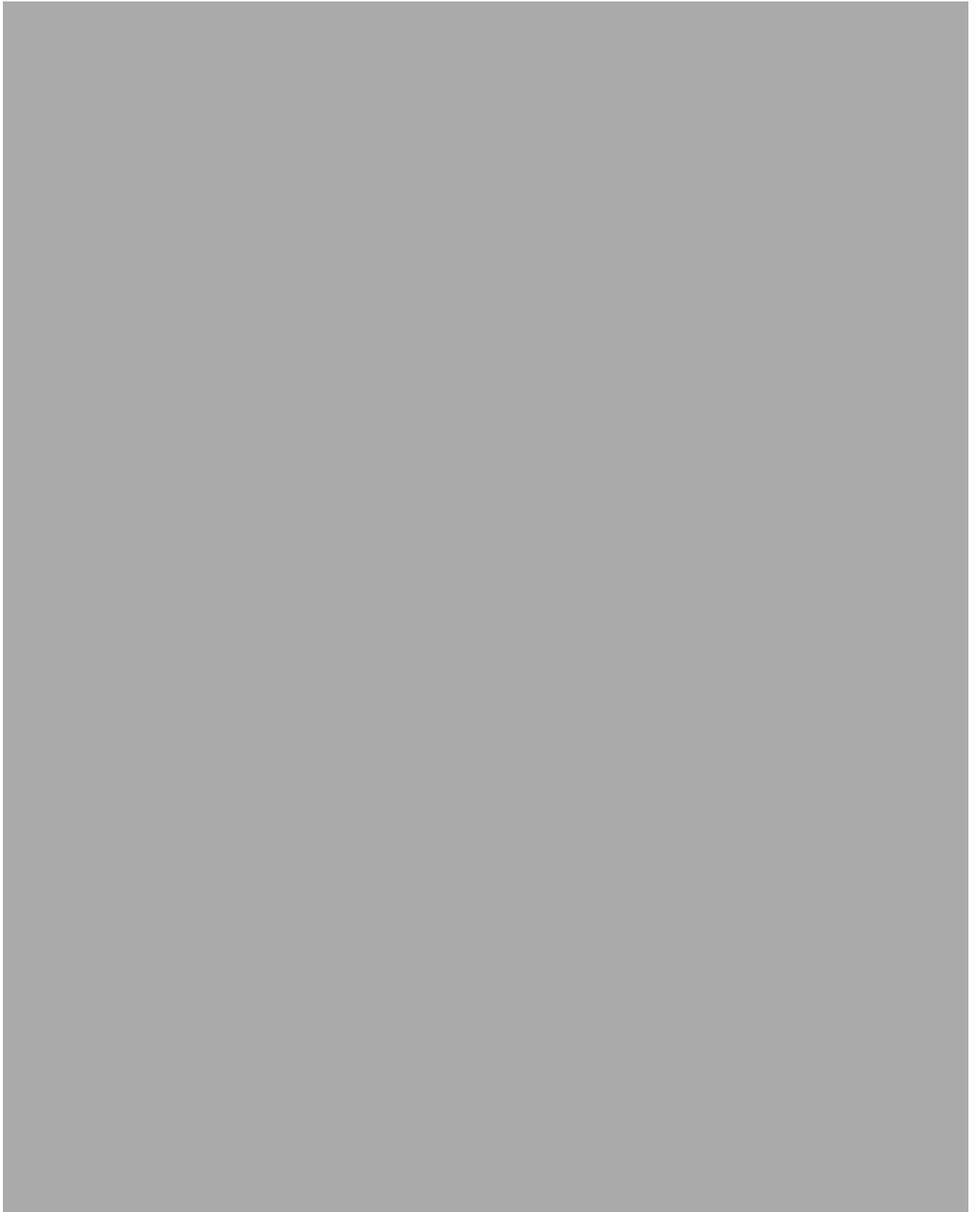


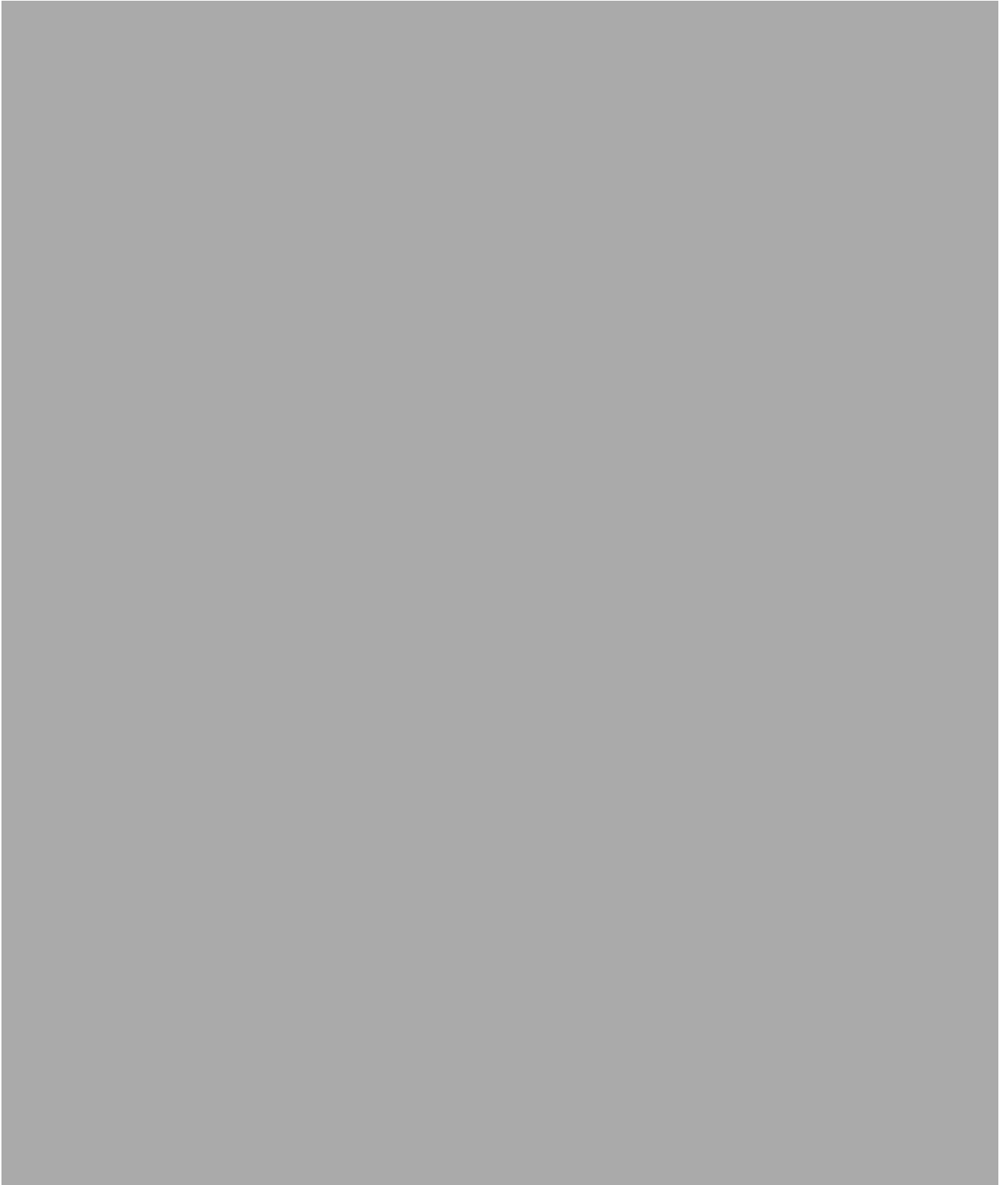
















### **6.3 Conceptual Picture of the Sustainability of Social Enterprise**

This section is about the first research question:

*Q1. How is the concept of the sustainability of social enterprises understood in the Korean context?*

Regarding the definition of the sustainability of social enterprise, the narratives of the cases present three main features that constitute the concept. These are profits, social mission or employment of the disadvantaged, and continuity of business after the ending of government support. Among them, social mission or the employment of the underprivileged, and

continuity without government support can be said to be distinguishing points for the sustainability of social enterprises, because the profit dimension is a critical feature when we discuss the sustainability of traditional companies.

Social entrepreneurs describe their job as difficult, complicated and innovative work through narratives that explain that social business has to achieve a social mission and profitability at the same time, whereas traditional firms just seek profits. For instance, the vice-chairman of Mercury reveals the difficulties below:

Social enterprises and standard businesses are same in that they have to create profits. Social enterprises, however, should seek to achieve a social mission and profits at the same time, although general businesses only chase profits. (Social Entrepreneur Soojung Hwang of Mercury, interviewed on 11<sup>th</sup> June 2013)

### **Narrative of Social Mission**

When it comes to achieving a social mission, the narratives of those in organizations that have NPO backgrounds disagree with considering profits as an essential standard for evaluating sustainability. According to these narratives, achieving a social mission is the chief purpose of social enterprises, while activities for profitability are treated as subsidiary ones. Entrepreneurs in the above organizations, agreeing with Diocheon and Anderson (2010), thought that altruism or the social purpose was the main characteristic and point of social organizations. Accordingly, they could well understand the famous definition of a

social enterprises as being one that improves social well-being through economic business (Diochon and Anderson, 2010).

The narrative of Moon illustrates that a social mission has to be located at the core of the organization when the sustainability of social enterprises is discussed (Abstract<sup>10</sup>, A). The general manager of the company, Junki Lee, felt uncomfortable whenever he was told that profitability should be the focus of the management of social enterprises (Orientation, O). The profitability of his company has not been high compared to that of for-profit cleaning companies, because he has operated it like a social enterprise, paying cleaners fairly and making efforts to improve the working environments of staff (Complication Action, CA). He raises his voice, arguing that he can increase business profits or net profits immediately if he converts the current management into that of traditional companies (CA). For this reason Junki argues that in social enterprises specific social aims should be considered before constituting a proper business model (A). If the business model is prioritized rather than the public purpose, the organization cannot find a way to continue as a social enterprise, even though it can keep going as a standard company (CA). Therefore, social entrepreneurs have to seek innovative business models that place their organizations' social mission at the core

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<sup>10</sup> According to Labov's elements of the complete narrative, the abstract is a frame for the story or what the story is about. Orientation (O) sets the stage or explains when, who, what and where. Complication Action (CA) indicates a turning point, crisis, problem or series of them. Evaluation (E) expresses how the narrator would like readers to interpret the meaning and importance of the story. Resolution (R) means the result or outcome (See Chapter 4).



(Resolution, R). To this social entrepreneur, who had a career in the NPO sector and experienced some periods of negative business profits because of the relatively high cost derived from management that considers staff and community, an excessive emphasis on profitability is not likely to be reasonable, even though he also agrees that social enterprises need appropriate profits to sustain them (Evaluation, E).

In the discourse on the sustainability, we should focus on the sustainability of social enterprises. In this context, I think social mission must exist at the centre of the discourse. (Social entrepreneur Junki Lee of Moon, interviewed on 7<sup>th</sup> June 2013)

In the case of Mercury, which originated as an NPO, the vice-chairman confessed that her main concern was not maximising profits. Mercury is satisfied with a moderate amount of profit and is always looking for new and necessary business to achieve its social aim: in other words helping seniors and creating jobs for the disadvantaged.

I have never thought of making a lot of profit. I am a person who wants to create various businesses or programs for seniors, so if one business for the old becomes stable I usually seek new activities. (Social Entrepreneur Soojung Hwang of Mercury, interviewed on 11<sup>th</sup> June 2013)

### **Narrative of Profit Generation**

As to profits, interviewees explained that these were a requirement for sustainability, so they firmly believed that they needed to show profits to continue and enlarge the employment they provided. The importance of profitability shows notably in social enterprises originating

from for-profits firms such as companies limited by shares.

To Sun CEO Sangmin Lee, who had worked in a large commercial bank for more than 30 years, profit generation is the most prioritized activity of social enterprises (A). He was appointed as a management specialist for the company in September 2012, after he had retired from the bank (O). He did not have any knowledge of social enterprises and the business of Sun when he applied for the position. A five-year career in a division of corporate social responsibility in a previous job was all his experience of activities for social contribution and voluntary service (O). When he started in his present position, he was alarmed at a situation in which even the activity of PR essential to increasing the profits of the company was very poor (CA). Now, as CEO he is concentrating on PR in order to attract a number of new customers (CA). Sangmin, who worked in the for-profit sector for a long time, naturally believes that social enterprises should create a considerable amount of profit, because their identity is that of a company (E). Social enterprises can be sustainable and create a lot of jobs for the disadvantaged only when they generate enough profits (R).

I think proper profits have to be created because social enterprises are companies...If there are chronic losses, they could not exist...Social enterprises continue and complete their social mission only when they create profits. (Social entrepreneur Sangmin Lee of Sun, interviewed on 12<sup>th</sup> June 2013)

A similar story was found in Jupiter, where the leader of the company, who has a for-profit company background as well, gives profit generation priority, arguing that companies that are just profitable could complete a social mission. For him, the sustainability of social

enterprise can be explained as a state in which companies spend money for social value on the premise that they can generate proper profits.

If we focus on community or social service too much, then business or profitability will disappear. Regarding the sustainability of social enterprises, I think the first priority is to earn money, and the second is spending it on social purposes. (Social entrepreneur Minsu Yoon of Jupiter, interviewed on 10<sup>th</sup> June 2013)

### **Narrative of Continuing in Business without Government Financial Support**

A few organizational stories suggest that sustainable social enterprises should be able to continue after the termination of certain government benefits. The next statements propose that the concept of sustainability must include the ability to carry on without government support. The view corresponds with one of the assumptions about social enterprises that the DTI (2002) presents, 'They should be grant-free and financially sustainable' (Wallace, 2005, p. 78).

The discourse heard from Venus emphasizes the need for business to carry on without government support (A). The company has been receiving government financial support for employing experts and social insurance subsidy since 2011 (O). A leader of the company, Soohyun Kim, confessed that the subsidies had been very useful, so that if there were no aid, he would have to lose three important positions in his business (O). Since the period of aid is limited to three years, the firm is aiming to continue hiring the experts even after the subsidy terminates in 2014 (CA). Soohyun, who has experienced helpful government support,

believes that the sustainability of social enterprise should include a related dimension of maintaining or increasing current employment in spite of the ending of government aid (E).

In my opinion, the sustainability of social enterprise means that an organization supported by government should maintain jobs and create profits even after government supports ends. (Social entrepreneur Soohyun Kim of Venus, interviewed on 13th June 2013)

Mercury's discourse on sustainability illuminates a negative idea of social enterprises' excessive dependence on government financial support (A). The organization was certified as a social enterprise in 2008 but has not applied for a wage subsidy to date (O). Soojung Hwang, vice president of the company, describes proudly that she decided not to apply for the wage subsidy because they can create jobs with their own profits. She criticises the government's top-down approach and the wage subsidy because she has witnessed some immoral companies just aiming to obtain the subsidy (CA). According to this vice president, who is managing her company independently from public money compared to other social organizations, government help should be selective support to potentially sustainable social enterprises (E). In conclusion, it is not appropriate to help every social enterprise at their birth, since it may not be clear whether they can stand on their own feet or not (R).

Even though I am not sure how other people think about the sustainability of social enterprises, I believe that it is not desirable for them to depend on government. I think over-dependence on public supports is not right, and it is wrong for government to support social enterprises at too early a stage of their existence. (Social Entrepreneur Soojung Hwang of Mercury, interviewed on 11<sup>th</sup> June 2013)

To sum up, stakeholders in Korean social enterprises understand the term sustainability according to three dimensions: achieving their organizational social mission; generating profits; and surviving without government subsidy. Regarding social mission and profit generation, there are different opinions according to the origin of the organizations. While organizations derived from NPOs focus on the former as a critical point in understanding sustainability, social enterprises that have their origins in for-profit companies emphasize the latter rather than the former. Regarding continuity without government subsidy, interviewees made it clear that sustainable social enterprises means survival after the ending of government financial aid.

## **6.4 Structural Elements**

This subsection will present findings about the third, fifth and sixth research question. The third research question is mainly addressed here, while the fifth and sixth questions will be answered more in the next chapter.

Q3. How do structural factors (social economy, market type and governmental policy) impact on the sustainability of Korean social enterprises?

Q5. How efficient has Korean social enterprise promotion policy been in terms of improving sustainability?

Q6. In what directions do the actors consider that social enterprise promotion policy needs to be developed?

#### **6.4.1 Polarized Opinion on the Social Economy**

Recognition and expectations of the social economy are polarized throughout the cases. On the one hand, the narratives of organizations having experience in the non-profit sector indicate that the social economy is one of most significant conditions for sustainability. On the other hand, the other organizational narrations show that their recognition and expectations of the sector are relatively low; and one narrative even shows that a social entrepreneur cannot identify what the social economy means.

#### **Essential Structure for Sustainability**

##### ***<Narrative from Moon>***

The importance of the role of the social economy in sustainability is revealed well in the narrative from Moon. According to this narrative, the social economy has contributed to sustainability through cooperation, manpower resources, information sharing, and financial aid. At the very early stage of its start-up, in 2002, Moon concentrated on forming a human network in the area of the social economy, recognising it as a precondition for business. The founder, who had had a career in a self-support centre, had made efforts to shape a network of activists in self-support centres across the nation. For this he had travelled to all parts of

the country – to the extent that he had to change engine oil once a month.

The social economy is basis of existence for organizations like my company. When I started the business in 2002, I really focused on networking. (Social entrepreneur Junki Lee of Moon, interviewed on 7<sup>th</sup> June 2013)

The network created meant support for the weaknesses of an organization deficient in financial and human resources. Junki Lee pointed out that at the time the size of the network was the scale of his own firm, and he believed that he could do business in about 205 municipalities mobilizing the resources of self-support centres existing all over the country. Cooperating within this network, the company did a great many joint projects with self-support centres. It could meet a bidding requirement that asked for a company over a certain size through forming a joint project with other organizations in the social economy sector. Therefore, the nation-wide cooperation with organizations in the sector became the special and distinguishing competitive feature of the company.

For me, however, the nation-wide network is the scale of my firm...I could mobilize self-support centres...My company could have enhanced competitiveness through solidarity with organizations operating in the social economy. (Social entrepreneur Junki Lee of Moon, interviewed on 7<sup>th</sup> June 2013)

Solidarity in the social economy provided Moon with substantial support in a few areas such as sales, human resources and information sharing (A). First, people and organizations in the social economy area could act as salesmen for Moon (A). The company won a large project with the assistance of an NPO chief executive who recommended the organization to an

influential person in charge of the important deal. At that time the head of the south district office of Seoul intended to turn down Moon as a prospective cleaning company for the office (CA). The official, however, changed his mind after receiving an e-mail from the famous and influential NPO chief executive, who strongly recommended the company as one of the most credible organization to conduct the project (CA). Finally, this social enterprise could carry out quite a large annual business of ₩1 billion a year (R).

People in the social economy are important salesmen for me. The leader of the NPO, Park, recommended my company to the head of the south district office...I was never acquainted with the local official...I was able to take the business. (Social entrepreneur Junki Lee of Moon, interviewed on 7<sup>th</sup> June 2013)

In addition, a number of members of Moon were recruited from social economy organizations. Moon was particularly prominent among the organizations because the CEO possessed a wide ranging human network in the social economy sphere. Selecting staff from the sector was quite beneficial to the company as they usually had appropriate qualities such as an understanding of the social economy and a sense of duty as well as practical skills.

What other social entrepreneurs envy me is how I can recruit staff. That's because I have met a lot of people in the social economy... (Social entrepreneur Junki Lee Moon, interviewed on 7<sup>th</sup> June 2013)

Besides, unlike traditional businesses in which profitable business information is not usually shared, Moon sought to share valuable information with organizations in the social economy. Through information sharing the firm could set-up new business plans with other social



economy organizations that had the resources that Moon lacked. According to the narrative of the company, information sharing in the social economy was regarded as an important element in organizational growth.

I believe monopolizing information is very selfish behaviour and anti-social economy...Social economy organizations have experienced growth through information sharing...I reveal useful information and discuss what we can do with the information. I have done a lot of collaborative businesses launched through sharing information. (Social entrepreneur Junki Lee of Moon, interviewed on 7<sup>th</sup> June 2013)

Finally, the company was able to overcome a dramatic management crisis with monetary support from social economy organizations (A). Moon, which had experienced fast growth by 2009, was searching for new business for its next advance (O). In 2010, it decided to take over a large home cleaning company (CA). The deal, however, became such a financial disaster that the company lost about ₩1 billion in that year (CA). According to the CEO, the company could not have carried on in 2010 if it had not been for a financial input from organizations in the social economy (E). He managed to take out a loan from the Micro-Credit Bank and Social Solidarity Bank (CA). In addition, a few social enterprises lent him money with a good grace and certain organizations did this interest-free (CA).

The company would have gone bankrupt in 2010 without a financial input from the social economy group. (Social entrepreneur Junki Lee Moon, interviewed on 7th June 2013)

*<Narrative from Saturn>*

Reviewing the case of Saturn, several activities designed to help social economy organizations were found, rather than instances of receiving help from the sector. As a member of the social economy, Saturn was operating 116 charity shops in Korea in 2013, and had sections for selling goods branded with the name of ‘public interest products’ in shops. Public interest products are goods produced by social enterprises, companies hiring the disabled and those engaging in fair trade. The social enterprise buys these public interest products from small social companies that are having difficulty finding a market and then sells the goods to customers in its charity shops. In the interests of these first producers of the public interest products, Saturn does not choose a sale-or-return method.

Saturn became a market for the products of small firms using its 116 shops. We are really proud of the activity which contributes to the growth of the social economy...  
(Social entrepreneur Hana Jung of Saturn, interviewed on 18<sup>th</sup> June 2013)

The organization also cooperates with social economy sector organizations when it distributes profits to the disadvantaged. As people working in local NPOs and social welfare centres know exactly who needs urgent support at a regional level, they participate in the profits distribution committee of Saturn.

Saturn is working with social economy organizations when it decides on recipients of its profits distribution...Activists in local NGOs or social welfare centres know best who needs our help. (Social entrepreneur Hana Jung of Saturn, interviewed on 18<sup>th</sup> June 2013)

## **Lack of Understanding and Low Expectations of the Social Economy**

Contrary to the above narratives, for a few organizations the social economy has not been a significant support for their business and its sustainability. The leader of Venus understands the social economy in an unclear way, so he does not know about the various groups existing in the area of the social economy.

Social economy? When you said social economy did you mean NGO? I don't know at all what cooperatives are. (Social entrepreneur Soohyun Kim of Venus, interviewed on 13<sup>th</sup> June 2013)

In the case of Sun, the organization has no experience of being supported by social economy organizations, even though it has aided other social enterprises by consuming their products. The managing director of the company understands the social economy as just a small sized economy that needs support from other sectors. In addition, he does not expect that the company will be assisted by the social economy sector in the near future, considering it to consist of relatively small and weak organizations.

I understand the social economy literally as a small scale of economy. Personally, I think it is very hard to form mutual support between weak organizations in the social economy. (Social entrepreneur Seungki Lee of Sun, interviewed on 12<sup>th</sup> June)

## **The Potential of the Social Economy**

The next narrative, by contrast, suggests how organizations have participated in social

economy networks and experienced a degree of help from the sector in terms of human resources and information sharing.

The leader of Jupiter admits the necessity of solidarity between social economy members. He actively participates in social entrepreneur meetings and anticipates that this cooperation will increase even though there has not been any help from the social economy so far.

I regularly have meetings with activists in the social economy. We have had 15 meetings in the last four months at the local level and in these gatherings the need for cooperation was discussed. (Social entrepreneur Minsu Yoon of Jupiter, interviewed on 10<sup>th</sup> June 2013)

Venus having little business cooperation with any social economy group, participates in a few events coordinated by NPOs and regular meetings of social enterprises. The CEO of the company narrates that mutual support between social enterprises will be beneficial, even though it is minute at the moment.

We have joined events that were led by NPOs to deal with social issues...I am taking part in the local council of social enterprises once a month on average. This activity has a positive meaning in reinforcing mutual help between social entrepreneurs. (Social entrepreneur Soohyun Kim of Venus, interviewed on 13<sup>th</sup> June 2013)

Narratives from the case studies suggested that solidarity between social economy organizations has to be reinforced in the near future, as cooperation with, and aid from, social economy organizations are currently not sufficiently well developed. Stories from

Venus and Jupiter present their expectations of inter-transactions or joint marketing within the social economy boundary.

I think my firm should use products made by other social enterprises and they could use our service. (Social entrepreneur Soohyun Kim of Venus, interviewed on 13<sup>th</sup> June 2013)

We have to cooperate with various organizations to survive because there is no way to succeed for our organizations, which are not subsidiary companies of major firms. (Social entrepreneur Minsu Yoon of Jupiter, interviewed on 10<sup>th</sup> June 2013)

In short, organizations whose roots lie in the non-profit sector consider that the social economy could contribute to their sustainability. According to the narratives of those firms, the social economy aids social enterprises, as it can supply human and financial resources and become a space for sharing information as well as cooperating over business. In contrast, the stories of social enterprises developed from traditional companies indicate that their recognition and expectations of the sector are comparatively low. In spite of the differences, most interviewees admitted the potential of the social economy to improve sustainability and the necessity to increase cooperation between organizations in the sector.

#### **6.4.2 Strong Confidence in the Sustainability of their Business Type**

Without exception, all the narratives of organizations illustrate that their narrators' choice of current business type is quite appropriate in terms of organizational sustainability. Stories

indicate the appropriateness of the market types in two dimensions, social and financial appropriateness, but they focus much more on the social appropriateness than on profitability. In brief, regarding the social dimension, all the cases show that the selection of a business type has been appropriate. There are, however, different opinions about profitability according to business types. The managers of the senior care, loan brokerage, education, and recycling businesses indicated that their business selection was right in terms of both its social and its financial dimensions. The social entrepreneurs of the cleaning and restaurant businesses, however, showed a negative attitude to the lucrative potential of their businesses. Nevertheless, they still strongly believe their business choice was very positive considering the social role of these unprofitable businesses.

### **Narratives of Social Appropriateness**

The next statements say that social enterprises are performing socially desirable activities through their businesses. In the narratives, the social entrepreneurs maintain that their business types are quite suited to sustaining their role, considering the social contribution of their commercial activities.

The narrative of Moon emphasizes the organization's role in improving the poor situation in the cleaning business area (A). In the cleaning business market, it is very common for a number of for-profit cleaning companies to commit illegal practices (O). Cleaners labouring in poor working conditions are paid less than the legal minimum wage (O). Moon, however, has complied with the legal labour conditions and even enhanced them beyond official

requirements (CA). This behaviour has improved labour environments in the cleaning market, because other private companies have been influenced by the decent management of the company (R). In fact, cleaners who had experienced this company's improved labour conditions asked for similar treatment when they worked for another, private company (R). For Moon, the cleaning business is quite appropriate as a sustainable business because it can contribute to the positive transformation of poor situations (E).

The important meaning of social companies in the cleaning market is that their existence can improve labour conditions in the market, checking for-profit cleaning companies that are showing illegal behaviour. (Social entrepreneur Junki Lee of Moon, interviewed on 7<sup>th</sup> June 2013)

Like the above cases, the narratives from Sun show the social appropriateness of its business. There exists a huge range of types of financial product, so people, especially the disadvantaged, cannot distinguish which products are useful for them. Even employees working in banks cannot understand everything about financial products. According to a managing director, social enterprise has to exist in the loan brokerage business because it can reduce the information gap between the disadvantaged and financial institutes through supplying people with useful financial information and knowledge.

I think my company must do business in the loan brokerage market because people cannot know how many financial products exist. We, however, can help customers by showing and comparing all the financial products. (Social entrepreneur Seungki Lee of Sun, interviewed on 12<sup>th</sup> June 2013)

Moreover, considering the high fees of traditional loan brokerage companies on customers, the social contribution of Sun is significant because it generates income from banks not from people.

We cannot deny that traditional loan broker firms are imposing illegally high fees on naive customers (Social entrepreneur Sangmin Lee of Sun, interviewed on 12<sup>th</sup> June 2013)

### **Narratives of Profitable Business**

With regard to financial appropriateness, a pessimistic opinion appears in the narratives of Moon and Mars. According to the stories of the two companies, which are operating in the cleaning and restaurant businesses respectively, their business choice was desirable not because of its profitability but because of its social contribution.

In the case of Moon if it's business is operated in a social enterprise way, in other words in a reasonable and legally managed way that provides enhanced working conditions and minimum wages to employees, it is very difficult to make proper profits in the cleaning market. Therefore, the leader of the company insists that social enterprises in the cleaning business can hardly be sustained without a relevant supporting system or possible resource links with external organizations.

The profit rate is very low. In my opinion, it is nearly impossible to continue business if a company is operated in a legal way in the cleaning market. (Social entrepreneur



Junki Lee of Moon, interviewed on 7<sup>th</sup> June 2013)

The food business requires much labour and time, while added value is relatively low according to the story of Mars. As an organic food supplier, Mars has spent a large amount of money on devising high quality healthy food. Therefore, it is not easy to generate as high profits as those of other high technology businesses. For this reason, the leader of the firm thinks that she needs to develop and add more profitable business when the company grows to a certain stage.

It seems a low profitability business because we use expensive organic staple foods...we do not supply any ready-to-eat products, so most food is cooked manually...so the cost seems really high. (Volunteer Junghoon Yeon of Mars, interviewed on 20<sup>th</sup> June 2013)

...it is difficult to create profits so the business has to be backed by a work ethic...Shaping a more profitable business should be our aim, because I believe that without this effort our business will not develop any further. (Social entrepreneur Koeun Han of Mars, interviewed on 20<sup>th</sup> June 2013)

According to statements by Venus and Mercury, on the other hand, the senior care business is certainly a proper business in terms of profitability, considering a promising increase in demand and on-going government support for senior welfare. To Soohyun Kim of Venus, senior care service is believed to have a rosy future because it is quite clear that the elderly population is growing rapidly, thanks to advances in medical technology and the increase of GDP in the country. He anticipates having a number of opportunities based on his optimistic expectation. Operating Mercury in the same industry, Soojung Hwang refers to the low costs

of the senior care service as a reason for her profitable business. The old who need senior care can use a service with a low budget because the government long-term care program supports about 80% of the cost to qualified recipients.

The prospect of increasing numbers of the elderly having wealth... there will be infinite future demand in the senior care service market. (Social entrepreneur Soohyun Kim of Venus, interviewed on 13<sup>th</sup> June 2013)

This business is quite good in terms of profit generation because the cost to customers is relatively small. (Social Entrepreneur Soojung Hwang of Mercury, interviewed on 11<sup>th</sup> June 2013)

The narrative from Sun explains that its loan brokerage business is profitable enough so it is financially appropriate for a sustainable social enterprise. Since the public role of the company is confirmed by the government through certification as a social enterprise, it can connect people seeking loan with all banks. This has become a very important comparative advantage because each private loan brokerage firm can do business with only one bank. According to the CEO, in this advantageous environment, the company will experience financial growth in the near future if sufficient PR is done.

I have an optimistic outlook about my company...If it is well publicized to people across the country through sufficient PR, it will grow continuously (Social entrepreneur Sangmin Lee of Sun, interviewed on 12<sup>th</sup> June 2013)

The managing director of Sun refers to an innovative business idea that made the company profitable. The business model of his firm that connects people who need loans with banks

and take fees from the financial institutions was new when it started up in Korea. According to him, the company possesses abundant innovative ideas related to financial products, so it will be highly sustainable.

Our business is innovative and we have a lot of new ideas to create financial instruments for the disadvantaged. With those ideas we can contribute to social aim as well as generating stable profits. (Social entrepreneur Seungki Lee of Sun, interviewed on 12<sup>th</sup> June 2013)

In brief, all the respondents argue that their business types are relevant in terms of organizational sustainability. When they explain the relationship between this sustainability and their business type, they refer to social and financial appropriateness. All business types in the research are argued to be sustainable in terms of creating social benefit. While social entrepreneurs in the cleaning and restaurant businesses admit their comparative weakness in terms of profitability, managers in the other markets in the cases in the research show confidence in the profitability of their businesses.

#### **6.4.3 Positive but Not Enough Policy Contexts**

It is widely accepted that the fast growth in the number of social enterprises in Korea is thanks to the government's extensive support, for example with labour costs and social insurance subsidies (Bidet and Eum, 2011; Hwang et al., 2011; Park, 2012). The researcher found both positive and negative stories about the public policy that governs social

enterprise promotion. Overall, interviewees in the study were likely to understand that public policy had played a critical role in the quantitative growth of the sector, even if it had shown limitations in improving organizational sustainability.

### **Positive Stories**

Texts from Moon explain that the context provided by government took a leading role in the rapid growth of social enterprises in a short period of time (A). Junki Lee admits that social enterprise promotion policy has had several positive effects on sustainability. When he first decided to construct a social enterprise, in 2003, most people had no conception of that type of company (O). However, due to government involvement with the enactment of the SEPA in 2006, social activists started to be interested in these companies (CA). He had seen that governmental initiatives had attracted competent people in various fields into the social enterprise movement. In his opinion, the influx of capable human resources could have positive effects on the sustainability of social companies (R). He recalled additional positive points of governmental policy. For example, the shaping of market environments for social enterprises and the supplying of financial support which became seed money helped nascent social firms to grow. Overall, to the social entrepreneur who has enough knowledge of related policy through active participation in policy forming processes, it is undeniable that the rapid development of social enterprises for the first five years (2007 to 2012) was led by public policy (E).

It is clear that social enterprises that had been unfamiliar even to social activists

became popular thanks to government policy. This contributed to the growth of social enterprises for the first five years. (Social entrepreneur Junki Lee of Moon, interviewed on 7<sup>th</sup> June 2013)

A similar assessment can be found in the narrative from Mars. The CEO of the organization evaluates social enterprise promotion policy as successful in more than half of the instances of its use. The concepts of social enterprise and social economy have come to be recognized by people due to strong government initiatives.

If I say social enterprise or social economy in some places, people understand those terms even though they do not know their clear meanings. That is an outcome of government involvement. (Social entrepreneur Koeun Han, interviewed on 20<sup>th</sup> June 2013)

More specifically, the narrative shaped by organizations that experienced government support indicates several useful types of support, such as wage subsidies, subsidies for hiring experts<sup>11</sup>, social insurance subsidies, research and development subsidies and consulting fee subsidies.

The narrative from Venus suggests the usefulness of subsidies for hiring experts (A). Venus, which had no spare money to hire professionals (O), could employ three experts from 2012

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<sup>11</sup> Certified social enterprises which employ experts in the fields of management strategy, accounting and marketing can apply for a subsidy that covers part of cost of hiring them (*Social Enterprise Guide Book*, 2012).

on, thanks to government subsidies (CA). The employment of these staff proved invaluable in that the company started an online shopping mall that sells products needed for senior care services (E). Soohyun Kim, CEO of the company, believes that the organization could not operate an on-line shopping mall if there was no financial support for employing experts (E). It is clear that the subsidy has been very helpful because the company has realized positive net profits every year with public subsidies, even if there has been continuous negative operating profit (E).

If there were no public support, we could not hire professionals and could not operate an on-line business either... (Social entrepreneur Soohyun Kim of Venus, interviewed on 13<sup>th</sup> June 2013)

The narrative from Jupiter is in line with the story told by Venus. The company was certified as a social enterprise in 2010 and received wage subsidy, subsidies for hiring experts, and research and development subsidies from 2011 on (O). The sales department head, Jin Jeon, argues that Jupiter has developed in spite of economic depression because it is a social enterprise. Jin remembers that there was a very difficult period of financial strain in 2010 (CA). He points out that it was possible to overcome the problem with public money available to social enterprises at that time (R). In his opinion, Jupiter would not have been able to continue if it had not been that type of company and had not received financial support from the government (E).

Jupiter has been developing because it is a social enterprise...It could have gone out of business if there had been no vital financial support when the company experienced

monetary pressure. (Staff member Jin Jeon of Jupiter, interviewed on 10<sup>th</sup> June 2013)

A series of texts produced in a senior care company, Mercury, emphasise the value of research and development and consulting fee subsidies (A). Soojung Hwang, vice president of the company, acknowledges that the company has experienced difficult environments of strong competition (O). In these situations, she realized that she should focus on PR to survive in the market. The company, however, had not advertised its business to potential customers because PR activities were nearly impossible for small companies deficient in capital (O). With government support, from 2012 the company could shape its website and advertise its services with leaflets (CA). Tax and labour problems are also probably among the most challenging issues in small organizations like Mercury. In the difficult circumstances described, the consulting fee subsidies paid by government became a useful support for the company (CA). Soojung who has negative a stance on wage subsidies, considers research and development and consulting fee subsidies as the most significant support for social enterprises to improve their organizational sustainability (E).

We received truly helpful subsidies for research and development and PR last year, and the homepage was constructed with the money... Employee relations are difficult for me to understand and manage, but we cannot take advice from a certified labour attorney because of the cost. (Social Entrepreneur Soojung Hwang of Mercury, interviewed on 11<sup>th</sup> June 2013)

## **Negative Stories**

With regard to wage subsidies, also known as the social enterprise job creation initiative, however, there was a very negative story, and this came from Mercury. The organization did not receive a labour costs subsidy because the vice president of the company felt there was a negative side to the subsidy. Mrs Hwang had noticed a number of companies receiving the support even though they did not need it. In the worst cases, several for-profit companies had entered the social enterprise area only to receive a wage subsidy, and without any social purpose. In addition, a great deal of paperwork had to be completed to meet the government's requirements if the company wanted to receive this support. The company did not have enough employees to do the work of creating a lot of documents so the members decided to undertake more meaningful activities for society rather than seemingly useless paperwork.

I clearly disagree with wage subsidies because a lot of companies in the senior care market are getting these benefits, even though they are making enough profits. (Social Entrepreneur Soojung Hwang of Mercury, interviewed on 11<sup>th</sup> June 2013)

Regarding this dark side of the wage subsidy, the discourse from Jupiter warns of the risk of the benefit, referring to reasons different from the ones argued by Soojung. An interviewee in the company points out bad side effects for the encouragement of social entrepreneurship. According to him, a large number of wage subsidies have damaged social entrepreneurship,



since certain entrepreneurs in the field do not seek innovation but support. In addition, a moral hazard cannot be overlooked in evaluating the support.

Government intervention through strong policies like wage subsidies can damage social entrepreneurship. It can make entrepreneurs less innovative as well as present them with moral hazard. (Social entrepreneur Minsu Yoon of Jupiter, interviewed on 10<sup>th</sup> June 2013)

Social enterprise promotion policy is criticized in the narrative of Moon as well. The CEO of the company points out that the government has obsessed about quantitative achievements such as the number of newly certified social enterprises and the scale of employment of the vulnerable. This trend has induced people without suitable backgrounds and qualifications to construct or convert their for-profit companies into social enterprises hastily.

Government officials always concentrate on quantifiable outcomes. They make efforts to achieve the goal of creating 100 or 1,000 social enterprises in a short period of time. (Social entrepreneur Junki Lee of Moon, interviewed on 7<sup>th</sup> June 2013)

Besides, he complains that government does not supply various types of support necessary to social organizations in their diverse stages of development and in different situations. Junki cannot find enough appropriate government support because most initiatives are focusing on creating social enterprises and aiding small-sized organizations. For his organization, government programs are too standardized and lack relevant approaches suitable to the organization's development phases. For example, in a policy fund, the maximum loan for a

social enterprise is just ₩200 million. The amount of the loan is too small for a relatively large company like Moon.

There are no diverse public programmes for supporting the growth of organizations. There are only plans suitable for engendering social enterprises. Public policy is always good at standardization. (Social entrepreneur Junki Lee of Moon, interviewed on 7<sup>th</sup> June 2013)

In summary, government policy for social enterprise promotion is understood as having positive and negative effects on sustainability at the same time. Most of the respondents admitted that government-led initiatives backed by the SEPA, as well as financial support, were necessary at the early introductory stage of social enterprises. Due to government leadership, a number of competent individuals were able to move into the social enterprise sphere and the population came to understand the positive meanings of these companies quickly.

However, organizations understand that public policy is no longer enough to improve sustainability. Especially regarding the wage subsidy, respondents suggest that this support has damaged organizational sustainability, even if they refer to its positive effects of reducing management costs. In addition, they offer a negative view of government's short-term orientation in concentrating on the number of newly created social enterprises. They complain that there is not sufficient variety of support aimed at helping maturing or mature companies to be more sustainable because of this government tendency.

## 6.5 Agency Elements

This subsection will present findings about the fourth research question:

*Q4. How do agency factors (social entrepreneurs, employees, organizations and capital) impact on the sustainability of Korean social enterprise?*

### 6.5.1 Importance of Social Entrepreneurs

#### **The Essential Role of Social Entrepreneurs**

Narratives shaped in Jupiter refer to the critical influence of social entrepreneurs on organizations' sustainability. Minsu Yoon, CEO of the company, argues that the destiny of organizations is mainly decided by social entrepreneurs. Therefore nurturing competent social entrepreneurs is vital in terms of both improving sustainability and increasing the number of social enterprises.

The role of the CEO is more than 80% of the process of improving the sustainability of social enterprises. If the government wants to construct sustainable social enterprises, the best way to achieve this is likely to be to foster 400 social entrepreneurs. (Social entrepreneur Minsu Yoon of Jupiter, interviewed on 10<sup>th</sup> June 2013)

According to the narratives of Junki Lee of Moon, the essential elements for improving the sustainability of organizations can be said to be innovation and an enthusiasm for challenge,

which are the principal attributes of social entrepreneurs. In addition, another social entrepreneur in the company, Junmin Kim, maintains that social entrepreneurs should be put at the centre of the discourse on sustainability. He argues that social entrepreneurs do not fail, even though individual social enterprises can fail. In other words, social entrepreneurs full of enthusiasm for challenge can start another business to complete their social aim, even after they have experienced certain failures in a certain business.

The influential elements of sustainability, such as innovation, enthusiasm for challenge or recognition of opportunities, basically come from social entrepreneurs. (Social entrepreneur Junki Lee of Moon, interviewed on 7<sup>th</sup> June 2013)

Social entrepreneurs do not stop, even if companies can stop... Social entrepreneurs can operate various types of business from manufacturing to the service market because they possess a strong enthusiasm for challenge. (Social entrepreneur Junmin Kim of Moon, interviewed on 7<sup>th</sup> June 2013)

Narratives heard in Saturn also concentrate on the significant role of social entrepreneurs, especially at the start-up stage (A). A famous leader, a civic activist, played an important role in creating Saturn. The leader, who had abundant experience in an NPO and a strong reputation in, and the trust of, civil society, started a new project in which citizens could participate. The idea was realized with the setting up of Saturn, charity a shop, in 2002, and this was due to the leader's commitment and leadership (O). He met a lot of people and persuaded them that the project was necessary in society (CA). At that time, he coined a catchphrase of 'sharing and circulation' in the process of creating Saturn. The slogan, which insists that citizens have to implement the sharing and circulation of resources to heal and

restore the community, has been effective especially with social leaders who have experienced charity shops such as Oxfam and Goodwill in their period of studying abroad (CA). The leader advertised his project, arguing that he intended to spread a healthy culture of sharing and circulation in society rather than just to sell products. Thanks to his energetic efforts, Saturn was able to open its first store in 2002 and enjoyed significant growth for several years (R). According to this story, a prominent leader with ability, vision, innovative ideas and a strong mind took a large role in creating and developing the organization in its early stages (E).

The most important thing for social enterprises is who the founders are at start-up time...this leader, who had fame in society, motivated rich people, big companies and government to donate resources. Many people and organizations were attracted by his argument that he would spread the culture of sharing and circulation into the community. (Social entrepreneur Hana Jung of Saturn, interviewed on 18<sup>th</sup> June 2013)

### **Excessive Reliance on Leaders**

A strong tendency for social enterprises to depend on one or two leaders is found in most cases, but not in the case of Saturn. When social entrepreneurs were asked about their roles in organizations, they confessed that they did everything from planning, audit, PR and marketing to personnel management. They admitted that human resources in their organizations were very weak, so there were not enough members of staff to trust. This situation might reflect a primitive stage of organizational development, which possibly means not only a low level of division of labour but also excessive dependence on a few

prominent leaders. In the case of Moon, the organization's excessive dependence on the leader is obvious, even though the firm has a division of labour to some extent.

On the other hand, narratives in the relatively large company of Saturn are different, so it is likely to be less dependent on social entrepreneurs. As one of the biggest social enterprises, Saturn has a well-developed hierarchy and a number of significant decisions have been made through discussions in which staff participated and actively presented their ideas.

### *<The Story of Mars>*

Koeun, the co-founder of the organization, has been involved in almost every project and process in Mars since its creation in 2007. Her roles stretch from planning, general management and financial administration to staffing and field control. In small size firms like hers, she argues, social entrepreneurs must be a multitasker who can do everything at the same time.

The division of labour is well defined in large companies but in small companies like ours we have to work on everything at the same time. (Social entrepreneur Koeun Han of Mars, interviewed on 20<sup>th</sup> June 2013)

As CEO of the company, Koeun feels that Mars is so weak in human resources that she cannot find many people who can take an important role in making the firm more sustainable at the moment. She confesses that to develop the business to the next stage the firm needs

capable activists whose talents exceed her own. For Koeun and Mars, finding and training more capable workers is a very urgent issue.

For us to be more sustainable, there should be more people like me or better than me in the firm. In trying to find and nurture those people, however, we have reached a deadlock. If there is no improvement in manpower, the organization will have no future. (Social entrepreneur Koeun Han of Mars, interviewed on 20th June)

### **<The Story of Moon>**

The organization has a relatively developed division of labour compared to small-sized social enterprises. In spite of the structured division of labour, dependence on a social entrepreneur in the organization is significant as well. The leader of the company, one of the most famous Korean social entrepreneurs, is chiefly involved in general management, development of new business plan and external activities. Moon is a holding company governing four affiliates, and the leader of the holding company is working as the CEO of two subsidiary companies at the same time.

Despite the considerable growth of the company over the past 10 years, the founder could not deny that the degree of staff's development had not caught up with organizational growth. He believes that relying only on a leader's growth, without growth in staff development, is not desirable for the organization. The CEO does not sense an improvement of manpower, and is aware only of his own growth. He thinks this is the case because staff cannot recognize the valuable momentum or opportunities for business that he can identify.

It is necessary to make members go outside the firm and get various types of experience. A leader's thoughts and ideas can be shared with members more easily when the members can understand what the leader considers important. (Social entrepreneur Junki Lee, interviewed on 7<sup>th</sup> June 2013)

### *<The Story of Saturn>*

Unlike other social enterprises Saturn has a noticeably departmentalized structure, so dependence on a few social entrepreneurs is comparatively low. At the top of the organization there is the executive director charged with final responsibility for management. The organization includes a Secretariat Office, a Fair Trade Office, a Charity Shop Office, a Planning Bureau, a Donation and Sharing Bureau, and Transparency and Sustainability Management committee. The interviewee is the general director of the Charity Shop Office and her task is relatively clear, so her specific jobs are distribution management and development of profit-generating business.

In this organization which employed 400 staff in 2012, important issues or decisions are handled with the wide participation of staff. For example, an organizational vision of 'an NGO equipped with professionalism that serves the public interest' was created through extensive discussions with staff. That is, it was not decided by just one or two influential people but formed by a bottom-up process.



When we set-up a vision for the organization, the CEO did not create it alone. After gathering various ideas from activists, it was finalized in a senior staff meeting. (Social entrepreneur Hana Jung of Saturn, interviewed on 18<sup>th</sup> June 2013)

To sum up the sub-section, the role of the social entrepreneur in improving sustainability is understood as essential. The innovation, enthusiasm for challenge, and passion that are needed in sustainable organizations are derived from social entrepreneurs. Therefore, it is argued by interviewees that social enterprise promotion policy should focus more on nurturing or training social entrepreneurs.

Meanwhile, a tendency to over reliance on a few social entrepreneurs is easily found in the Korean social enterprise context. Social entrepreneurs, especially in comparatively small organizations, carry out nearly every job because of the low level of division of labour and the relatively small number of high-quality staff.

#### **6.5.2 Members' Understanding and Empathy for the Mission and Aim of Organizations**

To make organizations more sustainable, interviewees agree that employees have to share the mission and purpose of their social enterprises. Similar opinions are expressed using vocabulary such as members' sense of duty, spontaneity or self-esteem.

## **The Story of Saturn**

The belief that members in organizations have to share the organizations' core values exists most prominently in the narrative of Saturn, in which all members of staff are considered as social entrepreneurs. In Saturn, the extent to which members understand the social mission of the organization is significant in improving sustainability. Therefore, the main organizational value is decided through the contribution of full-time workers, who are called as assistant administrators or activists (A).

Jiyoung Ryu having been a member of staff in the company since 2003 remembers an impressive experience in which all assistant administrators participated in the process of creating an organizational vision and mission statement in 2005 and 2012 (O). At that time, all members presented their ideas about potential vision and mission, and discussed these for quite a long time in each directorate (CA). Based on this participatory procedure not only was the mission statement of the organization finalized but also staff internalized this central value in a more effective way (R). She believes also that staff's spontaneity in carrying out their job is enhanced because members feel that the vision and mission that was created by them is theirs.

I think it is very important for members to understand and share their organizational mission. A social mission is specifically essential as it is a social enterprise...One of the memorable things is that all staff played a role in setting up a mission statement in 2005. It was very impressive as every assistant administrator joined the

process...They (the staff) believe the mission is theirs because they created it.  
(Member of staff Jiyoung Ryu of Saturn, interviewed on 18<sup>th</sup> June 2013)

In this democratic environment, all assistant administrators can identify themselves as a social entrepreneur in Saturn (A). Hana Jung believes that social enterprises would become more sustainable if each member identified himself or herself as a social entrepreneur (A). With this belief the organization has encouraged staff to share the ownership spirit of the company through recognizing them as social entrepreneurs.

The respondent had an experience that supported this belief. Like other companies, this social enterprise has undergone a few management crises in the last ten years (O). Whenever it faced a crisis, the employees, who were spontaneously supportive and had a strong sense of duty, played an important role in overcoming the risky situation (CA). They got together and discussed actively how to save their organization from its management crisis (CA). Active members tried to create helpful measures and conducted a campaign with concerted efforts to find a solution (CA). The atmosphere of the organization turned positive due to the activities of the assistant administrators and the risk became another opportunity to create a sense of solidarity in Saturn (R).

In my organization, assistant administrators are defined as social entrepreneurs... The company got stronger going through a few crises. Whenever red lights (signs implying danger) flickered in the business, all the members of the company became of one mind and made voluntary efforts to get through the troubles. (Social entrepreneur Hana Jung of Saturn, interviewed on 18<sup>th</sup> June 2013)

Considering the business structure of Saturn, the principal focus of members' sharing of the organizational mission is understandable. The most important resource for the business of the organization comes from participant and active citizens, since it does business with donations of used products and has volunteers in each store. Every store of the company is operated by one or two managers who are regular employees of the company and about 30 volunteers. Therefore, the participation of people is essential to the sustainability of the organization and participation can be encouraged mainly through citizens' sharing and understanding the public aim of the organization. The culture that seems to be shaped in the process of connection with external stakeholders is analysed to penetrate the internal relationship of the company (E).

First and foremost, people should not only empathise with the social problems that the social enterprise addresses but also agree with its business way of solution to social issues. Volunteers in my organization and citizens who donate products are people who agree and support our mission and way of solving social problems. (Member of staff Jiyoung Ryu of Saturn, interviewed on 18<sup>th</sup> June 2013)

### **The Story of Moon**

When Junki Lee, the leader of Moon, hires new staff, he prefers applicants who share the social mission of the company to individuals who are competent in terms of profitability but indifferent toward society (A). Before 2010, he sought and employed people who were competent, even though they lacked commitment to his firm's social mission (CA). At that time the social entrepreneur believed that the company needed proficient staff to grow the

business (CA). However, a few capable employees, who created not inconsiderable profits but were not interested in the social mission, generated conflicts in the organization (CA). Although the leader tried to achieve a fast organizational growth through hiring people who would help them create a profit, they became the causes of cracks in the relationship between members that threatened solid and sustainable development (R). Junki Lee's belief that this type of worker is not suitable for social firms became clearer when the company faced a catastrophic management crisis in 2012, because these people left the company without any hesitation (R). He believes that staff that have no understanding of and no empathy with the firm's organizational mission never stay with organizations facing crises (E).

Employees lacking the agreement with social mission of the social enterprise are not suitable for the sustainable development of the organization, even though they create profits. They cause trouble in the organizations and do not share organizational crises. (Social entrepreneur Junki Lee of Moon, interviewed on 7<sup>th</sup> June 2013)

To put it shortly, with regard to relations between staff, the sustainability narratives show that employees should share and understand an organizational mission and core values to make social enterprises more sustainable. In the case of Saturn, the point is most noticeable, with organizational value being created through the participatory discussion of full-time employees who are also considered as social entrepreneurs in the company.

### **6.5.3 Horizontal Culture for Sustainable Organizations**

According to the narrative of most case studies, desirable organizational culture is expressed with words like participation, communication, horizontality, acceptability, diversity and democratic relationship between members. However, a few interviewees pointed out negative sides of the participatory culture relating to the inefficiency of that type of decision making.

#### **Fluid Communication in Organizations**

Words from Saturn emphasize the bottom-up communication culture of the organization, insisting that organizations that have a top-down communication culture cannot be sustainable. The social entrepreneur, Hana Jung, describes staff of the organization as spontaneous workers who carry out their backbreaking job in spite of low pay. She argues that since one-way communication with these members of staff is inappropriate, organizational culture should be reviewed constantly to see whether or not there is enough communication in the decision making process. For fluid communication, a number of meetings in which staff can present their opinions very freely are held. Besides the meetings, the social entrepreneur visits the field very often. In places such as charity shops, working together with field staff she can hear new ideas, thoughts and complaints from them that she cannot catch in the offices.

Our organizational culture is very horizontal and active, even though we have a

hierarchy... Organizations depending on rigid top-down communication cannot continue long. (Social entrepreneur Hana Jung of Saturn, interviewed on 18<sup>th</sup> June 2013)

Staying on the similar lines, the narrative from Mercury also emphasizes communication, stating the horizontal culture of the organization. The vice president of the organization, having spent a long time in an NPO, has tried to shape a horizontal culture in the company. One of the efforts she has made is that all members of the social enterprise receive the same payment. To the social entrepreneur dreaming of a horizontal organization for a long period of time, the equal wage is not strange.

In the horizontal company, members could communicate and cooperate with each other without any barriers... To make more equal relationships, there is no difference between the wages of all members. (Social Entrepreneur Soojung Hwang of Mercury, interviewed on 11<sup>th</sup> June 2013)

The democratic culture of the organization might induce satisfaction among staff even though they are not satisfied with the amount of the salary (A). Hiju Yoon, who worked in a commercial bank for about 18 years, entered the company in 2008 (O). She was surprised at, and impressed with, the liberal atmosphere in which staff disagreed with a leader's opinion freely, because she had not experienced that culture in her previous company, which had a top-down culture (CA). Now she is assimilated into this culture and has heard that people outside the company envy it. She is very proud of the liberal communication and horizontal culture of the company (R).

We are very liberal in the company. It is horizontal, and smooth communication is always possible. People in other companies have said they like the atmosphere in my firm. (Member of staff Hiju Yoon of Mercury, interviewed on 11<sup>th</sup> June 2013)

### **Limited Importance of Communication**

The narrative from Venus, however, showed quite a different attitude to organizational culture. For this company, values like diversity, participation and democracy are relevant for non-profit type social enterprises based on non-profit legal status; whereas an owner has to take the principal position in a for-profit type of social enterprise that has the legal status of a company limited by shares. Although he admits that participatory decision-making and management have desirable aspects, he believes that organizations must have a faster and more effective decision-making process to generate more profits.

I think that diverse streams of decision-making are relevant to non-profit type social enterprises. A democratic procedure is right. But to make profits, the scope over which the owner has to take the decisions has to broaden in for-profit social enterprises. (Social entrepreneur Soohyun Kim of Venus, interviewed on 13<sup>th</sup> June 2013)

A similar discourse is found in Sun, a company limited by shares. In this company, smooth communication between members is considered a high priority. A more important philosophy in the organization, however, is explained as powerful leadership by the CEO and the willingness of employees to follow him or her on the path to achieving organizational purposes. In this organization, the CEO concentrates on unofficial



communication such as conversation over lunch or get-together dinners rather than official management meetings.

We have to shape an organizational culture in which staff members follow the path decided by the leader in order to accomplish the purposes of the company. (Social entrepreneur Sangmin Lee of Sun, interviewed on 12<sup>th</sup> June 2013)

In brief, stakeholders in social enterprises understand that a horizontal culture in an organization is more desirable than a hierarchical or authoritarian one to raise sustainability. In the horizontal culture, words like participation of members, communication, democratic relationship and diversity are emphasized. Narratives in social enterprises having a for-profits background, however, point out the possible inefficiency of a participatory decision-making process in an organization.

#### **6.5.4 Organizational Change as a Strategy for Sustainability**

In the narratives of a few organizations, organizational change is focused on as a critical strategy to improve sustainability. To be successful or to overcome risks Moon and Saturn have changed unceasingly, reforming their organizational structure, receiving new technology, and trying out management skills more usual in private companies.

## **The Narrative of Moon**

Whenever faced with problematic situations or business opportunities, the general manager of Moon has tried to transform one of the company's organizational structures, such as its operating system or governance, to improve the sustainability of the organization.

While the company started business as an ordinary private firm in 2003, the founder, Junki Lee, changed its structure into a corporatized union of self-support community companies based in the Seoul metropolitan area in 2004. The path of union was taken to gain competitiveness in the market through the enlargement of its organizational size. Although each self-support community company in the union was operating independently, the union as a whole was able to show increased sales figures that could be used as business advantage in the market.

In spite of this usefulness, the union path was problematic, because if just one company faced a management crisis, the damage influenced the whole union, despite the companies' managerial independence. Therefore, the union of self-supporting community companies was dissolved and direct management was selected as a new operating scheme.

After experiencing a 'leadership crisis', in other words, a lapse in judgement by the leader that could be regarded as one of causes of a critically damaging failure in the company's M&A in 2010, the direct management was replaced with a holding company system. Therefore, the company is now divided into five independent affiliates having their own

CEOs. Significant managerial decisions, including launching new businesses are made by Moon, the holding company, while ordinary decisions are finalized by each company.

The general manager of Moon is considering another organizational change because he believes that his company needs a core organization which is able to create and protect its value and identity. Therefore, research into the structure of a social cooperative and a non-profit association as the next organizational form is under way. Junki argues that an organizational structure change occurring every two or three years has contributed to the survival of the company.

I thought we could not survive if the company structure had not been changed at the right point. If the company had stayed with only one type of governance with a limited ability to respond to environmental change, we would have faced more serious managerial disaster. I believe the structural modification brought a change in staffing, so the change has been a great contribution to the continuance of the firm. (Social entrepreneur Junki Lee of Moon, interviewed on 7<sup>th</sup> June 2013)

### **The Narrative of Saturn**

According to a distribution manager interviewed, for the past 10 years Saturn, a non-profit foundation, has made various attempts to reform and construct its organization system. She argues that this tendency, in other words ‘not staying in one place’, has served as a foundation for their current success.

We have taken a lot of initiatives for reform, constructing systems or strengthening our staff. The efforts for continuous change became the basis of the current sustainability of the company. (Social entrepreneur Hana Jung of Saturn, interviewed on 18<sup>th</sup> June 2013)

When Saturn was set up in 2002, all members had to undertake multiple roles in this under-developed organization. At this early stage, the most necessary element was the passion of each member of staff labouring under poor working conditions. As time went on, each division of the company began to create manuals for each job reflecting their accumulated knowledge and experience, so the organization had more than 100 manuals by 2013. There was a pronounced organizational development when a computer system for work such as stock management or information retrieval was introduced in Saturn.

The organization, operated in a non-profit way, took on a consultant to analyse its competitiveness within the framework of for-profit companies. As a result of this consulting, several divisions were merged and management for profit generation became a focus. This change used to cause confusion or an identity crisis in the organization due to the clash between non-profit and for-profit values.

We took on an external consultant for organizational analysis and getting costs down. Personally, it had a small positive effect on me, to embrace entrepreneurship... There was an argument as to whether unprofitable stores had to be closed - even though these had social roles at a local level...Through the arguments, staff began to have a kind of sense of the balance between society and profits. (Member of staff Jiyoung Ryu of Saturn, interviewed on 18<sup>th</sup> June 2013)

According to Hana Jung, the confusion between profits and society was overcome through a discourse of 'mixed management' for profits and social aims. The mixed management discourse permeated the organization through a series of discussions and training sessions to enhance staff's understanding of the double bottom line. Additionally, in 2007, the BSC (Balanced Score Card) and KPI (Key Performance Indicators) managerial tools were introduced, because it was necessary to cut costs as the labour cost subsidy from government was terminated at that time. In her mind, the constant organizational change and new attempts have led to successful stories in the company.

In short, organizational change is considered as an important strategy to maintain sustainable organizations by a few respondents. Narratives of organizational change for sustainability are prominent in Moon and Saturn, and according to the two organizations, they have overcome risks and crisis through pursuing continuous change in areas such as organizational structure and adapting to new management skills.

#### **6.5.5 Difficulties in Funding**

Most respondents complained of problematic situations in raising money to conduct business. Social entrepreneurs who are mainly responsible for funding in their organizations feel that they cannot find proper and varied streams of finance with favourable conditions. The problem is in accordance with the results of a survey by Jeon et al. (2012) that indicate 19% of 562 social enterprises answered that their most important need was for support with

business cost, and 13.2% referred to support with equipment costs. This means that 32.2% of all social enterprises put finance as the area where they most needed support.

As for traditional companies, finance is essential for social enterprises to be sustainable. A social entrepreneur of Jupiter, Minsu Yoon, feels that the most difficult point in operating a social enterprise is finance. In his mind, the difficulty in financing is one of the most obvious emergent risks in the management of social enterprises.

Borrowing from commercial banks is nearly impossible...Other things in social enterprise management are not bad but financing is a critical problem. (Social entrepreneur Minsu Yoon of Jupiter, interviewed on 10th June 2013)

Stakeholders in the social enterprise field understand that the difficulty in funding can be attributed to the absence of proper loan systems for companies aiming primarily at social purposes (A). Junmin Kim of Moon criticizes the current loan system as extremely rigid toward social enterprises (O). To borrow from commercial banks, he continues, social enterprises have to be evaluated by financial statements (O). He has discussed taking a loan with the local branch manager of a certain bank, who was in sales promotion (CA). When he did this, he explained the situation of his company and asked if it could take a loan from the bank. The manager, however, answered that it was nearly impossible to provide him with finance given the current condition of the company (CA). The bank lends money to companies that have shown at least two years back-to-back positive business profits and are evaluated as likely to realize a stable surplus from that time onwards. He thinks that taking

the financial statement as a criterion for a loan is not appropriate for social enterprises, which concentrate on generating social interest, not profits (E).

The branch manager's face stiffened when he listened to my explanation of my company's profits. He added that his bank focused only on business profits when it decided to lend money to companies. (Social entrepreneur Junmin Kim of Moon, interviewed on 7<sup>th</sup> June 2013)

To Soojung Hwang of Mercury, the requirement of collateral was an insurmountable barrier whenever she tried to borrow money (A). She stated that her company does not have any debt at the moment because it could not borrow money from any bank or public fund (O). Actually, she needed to borrow money, since she was considering moving to a new large office. She had applied to receive public funds from the MOEL (CA), but she had failed because the MOEL requested collateral (R). In her mind, it was ridiculous for a non-profit organization to be asked to supply collateral (E).

The same complaint is found in the story of Saturn. Hana Jung of that company criticizes the situation in which banks require social enterprises to supply collateral when they make a decision on a loan. It is unusual for social enterprises, especially originating from NPOs, to have real estate suitable to be put up as collateral. She argues that Korea needs a social finance system appropriate for organizations in the social economy as soon as possible.

We don't have debts, not because we don't want to take out loans but because we can't. NPOs like us do not have property to supply as collateral... It is difficult to get a

loan from banks without collateral. (Social entrepreneur Soojung Hwang of Mercury, interviewed on 11<sup>th</sup> June 2013)

If we don't have suitable collateral, we cannot borrow money. However, I think social enterprises should borrow without supplying collateral, so a new system of social finance is necessary. (Social entrepreneur Hana Jung of Saturn, interviewed on 18<sup>th</sup> June 2013)

To sum up the sub-section, social enterprises face difficult situations in borrowing to invest in their business, so financial weakness is cited as one of the critical risks to sustaining these organizations. According to the narratives, the current loan system, which assesses companies totally based on their business profits, is criticized as inappropriate to social enterprises since it has no differentiated criteria to evaluate these companies aiming at social benefits. The tradition of requesting collateral when financial institutions make a decision on a loan is seen as a big obstacle in financing.

## **6.6 Conclusion**

In this chapter the findings regarding the research questions have been explained. Stakeholders in the Korean social enterprise sphere understand the term sustainability as having three dimensions: completion of social mission, profitability, and staying in business without government support. The social mission is mainly focused on by social enterprises based on the NPO sector, while profitability is emphasized by organizations originating from



for-profit companies. With regard to continuity without government financial support, respondents who are experiencing public aid argue that sustainable social enterprises should maintain business and their employment after the termination of the financial support.

The research finds that the social economy is understood as an important structure for the sustainability of Korean social enterprise. People working in social enterprise believe that the social economy could contribute to their sustainability through cooperation in the social network, supplying human resources, and financial support, even though the degree of expectation varies. Organizations with an NPO background understand the social economy and its inevitability very well; but social enterprises from a traditional business background show relatively low understanding and expectations of the sector. Even those that have a low recognition of the social economy still insist that cooperation in the sector should increase and that it will be useful in raising the sustainability of their organizations.

Regarding business type, all narratives insist that their business type is appropriate in term of organizational sustainability. Interviewees gave attention to the social and profitable sides when they discussed the appropriateness of their businesses. Narratives in senior care, loan brokerage, education and recycling companies argued that their business was socially and financially sustainable. Stories in cleaning and restaurant firms, however, focused on their social contribution rather than profitability.

With regard to government policy, stakeholders understand that public policy has been important in leading the fast quantitative growth of social enterprises until now. However, in

many cases, stakeholders felt that wage subsidy had lowered organizational sustainability, even if a few respondents referred to its usefulness as a cost saver. Moreover, government's short-term orientation that has focused on creating new organizations as well as insufficient policy options that are designed for maturing or mature organizations is pointed out as problems.

Answers to research questions about agency factors and sustainability are presented as well, and these are about social entrepreneurs, employees, organizational culture and change, and funding. Most narratives show that there is a critical role for social entrepreneurs in improving organizational sustainability. Concerning the role of members of staff in sustainability, their empathy for the mission of their social enterprise is considered as the most critical point. In many cases, members of staff who understand the social aim of their organizations are preferred to employees who can create profits but don't have any commitment to social benefits

In terms of organizational factors influencing sustainability, two issues are explained. On the one hand, most narratives insist that smoother communication between staff members under a horizontal communication structure should be prioritized as an organizational culture that increases sustainability. Continuous organizational change, on the other hand, is emphasized by some as a critical strategy for creating sustainable social enterprises.

Considered as an essential factor influencing sustainability, the funding of social enterprises is thought of as one of the most difficult problems. According to the interviewees and

research, a number of social organizations suffer from difficulties in finding proper funding streams, because lenders like banks usually treat them in the same way as they treat for-profit companies. Social entrepreneurs raise the issue that a new funding system of social financing should be constructed. They argue that in social finance the social role of social enterprises, rather than business profits or collateral, should be considered as one of the conditions for decisions on lending.

## CHAPTER 7      DISCUSSION

### 7.1 Introduction

In this section the researcher will explain three issues that arise from his findings. The first two of these issues need wider discussion regarding sustainability drawing on the related literature; and the third provides a response to the research questions about policy evaluation and implications.

First of all, the chapter develops an understanding of the term sustainability in the field and policy spheres, reviewing debates on earned-income strategy. The researcher examines whether this strategy is relevant in explaining the Korean case. Then, the usage of the term in the government sphere is introduced. Second, social entrepreneurship is addressed, drawing on literature comparing it with other kinds of entrepreneurship or activities as well as studies defining the concept.

Finally, the researcher reviews how Korean social enterprise policy is evaluated in terms of the sustainability of organizations, and presents his policy implications, drawing on the literature and his findings. This part is connected to the fifth and sixth research questions.

Q5. How efficient has Korean social enterprise promotion policy been in terms of improving sustainability?

Q6. In what directions do the actors consider that social enterprise promotion policy needs to be developed?

## **7.2 The Meaning of Sustainability of Social Enterprises in the Korean Context**

### **7.2.1 Debates on Earned-Income Strategy**

Boschee and McClurg (2006; 2003) make a distinction between sustainability and self-sufficiency, arguing that social entrepreneurs should ultimately pursue the self-sufficiency of their organizations through earned-income strategy. According to these writers 'sustainability' can be accomplished through employing various resource streams such as earned income, public aid and donations, whilst 'self-sufficiency' is accomplished through earned income only. This earned income is generally defined as income generated from business activities, for example, by trading goods or services (Anderson and Dees, 2006). Boschee and McClurg see every income stream except earned income as originally dependent on external entities such as altruism, voluntarism and government. So the self-sufficiency of organizations cannot be realized as long as they are not totally relying on earned income.

Anderson and Dees (2006), however, criticize Boschee and McClurg's opinion as a total misunderstanding, because the idea of a thorough distinction among organizational income

streams in relation to dependency and self-sufficiency is erroneous. According to them, there is no organization that is entirely independent of external entities or resources, because business organizations that pursue their business with earned income are also dependent on customers as well as on resource suppliers such as the labour market and banks. Moreover, they argue that there is no clear evidence that earned income is intrinsically more sustainable than the other financial resources of social organizations.

### **7.2.2 Sustainability in the Field**

#### **Multiple bottom lines**

Arguments about earned income strategy, however, are not enough to cover the meaning of the sustainability of social enterprises in Korea, because it mainly discusses the financial dimension of organizations. Not a single social entrepreneur talked about the financial dimension alone when he or she referred to the sustainability of social enterprises in interviews in the research. Most social entrepreneur respondents, in discussing sustainability, emphasized the achievement of social purposes as well as financial viability and ability of a business to continue after government support had stopped.

When they employed the word sustainability, it usually implied a double bottom line, a combination of accomplishing social values and financial stability, even though the weight they put on community and profitability might vary. A basic feature that distinguishes social enterprises from traditional firms is the pursuit of social objectives, according to respondents.

A general manager of Jupiter explained that the foundation of their sustainability was spending the money generated from their business to accomplish the organization's social role. A social entrepreneur of Moon understood that when the sustainability of social enterprises was referred to, social mission should be placed at the centre. According to him, if profitability is considered first, then the organization can be classed not as a social enterprise but as a for-profit company. As a result, the social purpose and the profitability of organizations should be explored simultaneously when the sustainability of Korean social enterprise is examined.

Another interesting point is that an environmental dimension, which takes an essential position in the discourse on sustainability in Western countries, was rarely found in the interviews of the research. Therefore, it can be said that the sustainability of social enterprise in the practical field does not mean sustainable development that has an emphasis on an environment protection.

### **Earned Income or Various Income Streams**

Contrary to Boschee (2006), who argues that ambitious social entrepreneurs seek self-sufficiency through earned income alone out of the diverse resources available to them, Korean social enterprises, on the whole, prefer varied revenue resources. However, they realize that earned income is fundamental to their sustainability, because they know that it is hard to find diverse income streams in the Korean context.

In particular, revenue generated from donations by the public is not very significant in Korea. The amount of philanthropic donations by individuals in the country is relatively low compared to that in developed countries such as the USA or the UK (Son, 2007). According to Son (2007), 80% of donations by individuals go to religious institutes, so donations to non-profits or third sector organizations are very small. The income structure<sup>12</sup> of non-profits demonstrates this tendency, with donation by individuals accounting for just 2.5% of the total income of social organizations in 2003 (Park, 2006).

In the research, five cases out of seven had two main income sources: business revenue and public subsidies. Just two cases had more than three sources of revenue, including income from the operation, government aid and donations. Most social entrepreneurs in the case studies did not think that earned revenue is the only strategy to take, even though it seemed that the degree of importance of the strategy varied according to business types, philosophy and the background of entrepreneurs.

Saturn among all the case studies showed that it needed the most varied resource streams, as it was heavily dependent on charitable donations from individuals. People's philanthropy is essential to the business model represented by this social enterprise, because Saturn mainly recycles and sells used products that are donated. Therefore, for the managers of this

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<sup>12</sup> According to Park (2006), the total income of the non-profit sector in Korea in 2003 can be categorized as 70% business income, 27.4% revenue from government, and 2.5% donation.



company, finding innovative ways to encourage donation is critical because their financial performance is seriously affected by philanthropy. In practice, the company has devised several means of increasing donations, and one of them involves cooperation with delivery companies. With this cooperation, delivery companies that intend to help the social enterprise collect and deliver donated products to the company free of charge. For people who want to donate used goods to Saturn, the system is convenient and means there is no cost to them. Besides this, the company divides its business into a profit part and a social purpose part in terms of audit, and considers contributions or product donations as business profits of the social purpose part. The business income generated from the social purpose part accounts for a larger proportion of profits than that from the profit part. For example, in 2009, the profit of the former was ₩2 billion but that of the latter was recorded as ₩0.2 billion.

The company can be said to be critically dependent on external contributions so it is unsustainable or not self-sufficient, according to Boschee's language. Saturn, however, is recognized as one of the most successful and famous social enterprises in Korea. Respondents of the company also strongly believe that the sustainability of the firm is very positive.

Mars is another case that includes relatively varied income streams. These are government subsidies, contributions from for-profit companies and donations by people as well as business profits. In 2011, the company achieved ₩518 million of non-business profits, which included ₩256 million of contribution from a for-profit company, ₩185 million of

central and local government support, ₩15 million donated by a public foundation, ₩11 million donated by individuals and ₩51 million of miscellaneous profits.

The creator of the company has an NPO background as she had worked in Haja Centre, which could be categorized as a non-profit institute. According to her, she was seriously helped by the centre when she started up the company. She has been using an office in the Centre without any cost as well as taking start-up money for a social enterprise. Her story shows that she made efforts to use various resources to launch and operate the company.

We received social enterprise certification in 2008 and this was quite early, as the Social Enterprise Promotion Act had been enacted in 2006. At that time I thought that since we possessed firm social vision we should employ diverse social resources, including government support, very actively. (Social entrepreneur Koeun Han of Mars, interviewed on 20th June 2013)

The other social firms in the research are dependent on public financial support while they consider a business profit as a main financial resource. For example, the narrative in Moon argues that the cleaning service business needs public aid if it is to be operated as a social enterprise type. The social entrepreneur of the company admits that cleaning is a very unprofitable business if a company follows the laws and regulations that protect the rights of employees. According to his narrative, it is very difficult for a social enterprise that pays above the minimum wage to cleaners and follows statutory working hours to stay profitable if it does not have a relevant system of financial support. The company, which is divided into five independent subsidiaries, has an advantage in terms of receiving government

subsidy, because each subsidiary can get this support. The social entrepreneur admitted this advantage, confessing that he thinks that it is a problem for the company, which generates ten times more turnover than the average social enterprise in Korea, to take the same amount of public support as other smaller social firms. For this company, public support might be an important income resource that cannot be abandoned.

Consequently, achieving sustainability or self-sufficiency through earned-income alone in the Korean context is not widely accepted among social entrepreneurs. They are making efforts to improve sustainability by finding various income resources as well as enlarging business profits.

### **7.2.3 Sustainability in the Policy Context**

In the context of policy, it can be said that sustainability is one of the most emphasized words in recent social enterprise promotion plans. Reviewing government documents, sustainability has been emphasized ever since the enactment of the SEPA in 2006. At that time, the concept of a social enterprise was introduced as a new and sustainable job creation scheme to replace the previous SWP (see Chapter 2), which was criticized for only supplying short term and low waged positions to the disadvantaged (National Economic Advisory Council, 2007). With regard to the SWP, the government had to consider a new model because that plan was completely sustained by public monetary input. For policy makers, social enterprise could be considered as a sustainable scheme to create and maintain

decent jobs for underprivileged people because they were believed to work with their own profits generated from their business operations.

Since the enactment of the SEPA in 2006, however, the concern as to whether social organizations are sustainable or not has continued in public officials charged with social enterprise policy, as most certified social firms are financially supported by government. Two important government initiatives, the Social Enterprise Promotion Plans of 2010 and 2011, emphasized public measures to enhance the sustainability of social enterprises (Korean Government, 2011; Ministry of Labour, 2010a).

In spite of the frequent usage of the term sustainability, it is hard to find a clear meaning of the word in Korean government documents. Moreover, vocabulary such as sustainability, financial sustainability, sustainable development and self-sufficiency has been employed for the same meaning without identifying any differences between the words. For example, a public initiative called the Social Enterprise for People in 2010 employed the term sustainable development even though it did not involve an environmental dimension (Ministry of Labour, 2010b). In the Social Enterprise Promotion Plans of 2010 and 2011, sustainability and self-sufficiency were used to mean same idea (Korean Government, 2011; Ministry of Labour, 2010a).

Whilst a policy focus is placed on improving the sustainability of Korean social enterprise, there is no agreement as to whether a certain social enterprise is sustainable or not. In addition, it is hard to find standards to evaluate the sustainability level of social enterprises.

The problem is likely to occur because there are not enough academic and policy efforts to explore the appropriate concept and assessment of sustainability.

One point, as has been explained in the context of field level, is that sustainability in a Korean social enterprise policy context does not include an environmental aspect. Instead, it might imply continuation without subsidy, development, success or profitability on the part of organizations. Therefore, in a Korean context, the sustainability of social enterprise does not mean sustainable development either at a policy or at a practical level.

In summary, in the Korean social enterprise policy environment, the term sustainability is not clearly defined. There has been confusion among the words sustainability, fiscal sustainability, sustainable development and self-sufficiency. To prevent confusion, academic research into the sustainability of social enterprise as well as policy efforts to define the concept is necessary.

### **7.3 Social Entrepreneurship and Sustainability**

In the research, the role or activities of social entrepreneurs to improve organizational sustainability is especially emphasized by most interviewees. One narrator insists that more than 80% of the success of social organizations is determined by social entrepreneurs. Another respondent argues that if government hopes to create more social enterprises, the main focus has to be on nurturing competent social entrepreneurs. However, in spite of the

significance of, and increasing research into, social entrepreneurship, it is hard to find agreed boundaries for the concept (Nicholls, 2006). In order to understand the concept of social entrepreneurship, which has been described as a contested (Choi and Majumdar, 2014; Nicholls, 2006), unclear (Zahra et al., 2009), poorly or ill-defined (Mair and Martí, 2006; Santos, 2012; Weerawardena and Mort, 2006), or non-unified (Dacin et al., 2010) concept, it is necessary to compare social entrepreneurship with both commercial entrepreneurship and the activities of not-for-profits or benevolent foundations (Dees, 1998b; Nicholls, 2006).

### **Social Entrepreneurship, Commercial Entrepreneurship and Non-profit Leadership**

According to Mair and Marti (2006), social entrepreneurship is mainly different from entrepreneurship in the business sphere in that the former places relative priority on social value creation while the latter prioritises economic value generation. The second difference argued by the authors is that social entrepreneurship is in a difficult position when it comes to creating economic value because in many cases such as supplying food or shelter to the disadvantaged, customers cannot pay even a low price for the goods and services consumed (Mair and Martí, 2006).

The differences from traditional entrepreneurship are also well examined in the research of Austin et al.' (2006). First of all, the authors point out that the primary missions of the two groups are different, agreeing to Mair and Marti (2006)'s opinion shown above. Another difference occurs in the field of organizational measurement; so the outcome of business entrepreneurship is mainly measured by relatively standardized financial performance, while

there is a lack of standardized measurement for social entrepreneurship (Austin et al., 2006). Finally, the two entrepreneurship show distinct characteristics when it comes to mobilizing necessary resources. Business entrepreneurship attracts the financial or human resources it needs depending on monetary return. It can attract investors or employees by proposing a certain return on investment or a certain wage. Social entrepreneurship, on the contrary, is likely to find it difficult to mobilize proper resources as it usually lacks financial attraction. Therefore, in many cases, social entrepreneurs must identify funds based on philanthropic purpose as well as rely on volunteers or staff who are more interested in social value than financial return (Certo and Miller, 2008).

A prominent factor separating social entrepreneurship from activities in a non-entrepreneurial social venture is market orientation (Nicholls, 2006). Social entrepreneurs continuously identify market value as a prime factor in the process of achieving their social goal, while traditional not-for-profit or advocacy operations exist in flawed market or non-market surroundings. The term market orientation can be replaced with the term enterprise orientation, which signifies that entrepreneurs operate trading organizations as well as produce and supply goods and services in the market (Shaw and Carter, 2007). According to Shaw and Carter (2007) in social entrepreneurship, trading activities are employed to complete a social mission or achieve organizational sustainability, whilst in other, non-trading, organizations in the social economy charitable donations are used.

## **Definition Construction**

The researcher argues that there are conceptual components and normative components among a number of elements used for constituting the concept of social entrepreneurship in the volume of related literature produced to date. Conceptual components mean core elements to determine whether certain activities can be understood as social entrepreneurship or not. These are similar to Nicholls' (2006, p. 13) two constituent factors for defining social entrepreneurship: 'a prime strategic focus on social impact and an innovative approach to achieving its mission'.

The first core element is social mission, so social entrepreneurship has to be defined in terms of the social role of activities. This approach is compatible with an argument of Dacin et al. (2011), according to which the conceptualisation of social entrepreneurship that focuses on social value creation can contribute to making the academic field more promising. The second core element is market orientation, so non-market-based activities or processes might not be regarded as social entrepreneurship, even if a social mission is found in them. With the second component, social entrepreneurship possesses a distinctive identity from that of traditional non-market based philanthropic organizations and public sector bodies (Nicholls, 2006; Shaw and Carter, 2007). Therefore, the researcher argues that social entrepreneurship can be defined as activities or processes based on commercial trading on the market to achieve an organization's social mission.



This understanding is very evident in the practical area of social enterprise, as shown in the interviews. One narrative from Moon states that social mission and trade are core traits for social enterprises, and other elements are considered as effective means to achieve organizational purposes.

When we are talking about the sustainability of social enterprise, we must concentrate on social mission. Placing social mission at the centre, we should make an effort to associate trading with this mission. In the process of constituting sustainable business, innovation or self-development is considered. (Social entrepreneur Junki Lee in Moon, interviewed on 7<sup>th</sup> June 2013)

The researcher argues that components other than social mission and market orientation may be regarded as normative ones. The normative dimension includes good leadership, identifying and seeking new opportunities, innovation, accountability, change, proactiveness, and risk management. Most of these explain successful rather than existing, mainstream, social entrepreneurship, so they can be said to refer to the characteristics of desirable prototypes.

According to Peredo and McLean (2006) a plausible definition of entrepreneurship should include unsuccessful, unstable and less standard cases, rather than being based on only successful or inspiring stories or individuals, because a great deal of less than ideal entrepreneurship exists in real situations. In addition, a definition reflecting only success might prevent researchers from acquiring fruitful knowledge and understanding that might be derived from failures of social entrepreneurship (Dacin et al., 2010).

A story from Moon shows that the innovation generally argued to be one of the essential traits of social entrepreneurship is not necessarily found in real cases. The story states that even though innovation is critical to sustainability, it is hardly found in a small and simple service business such as cleaning.

The frequent references to new challenges that are heard usually come from entrepreneurs; but it is very difficult to find innovative challenges in a simple service business. (Social entrepreneur Junki Lee in Moon, interviewed on 7<sup>th</sup> June 2013)

Another narrative, from Mercury, supports the value of experiences arising from a management failure. A social entrepreneur in the company opened a restaurant in 2010. She aimed to use the profits generated from the restaurant business for a free lunch service to the old. From local government, she obtained a wage subsidy that she believed would continue for three years. After one year of operation, the local government unexpectedly decided to decrease the subsidy to 60% in the second year and 50% in the third year. In addition, the social entrepreneur could not control the restaurant's employees effectively. Employees who found that their wages came from the local government did not follow the social entrepreneur's orders. Moreover, she could not concentrate on the restaurant business since she had other businesses related to the mother company. Therefore, Mercury could not carry the deficit derived mainly from the high cost of this business and exited from the restaurant business in 2012. The social entrepreneur learned that she should prepare for a sudden change of public policy, and also that a restaurant should be operated by managers who can fully devote themselves to the business.

We were not prepared for the unexpected decrease of the wage subsidy from local government... In addition, employees did not follow my orders since they knew that their wages came from government. I realized that the restaurant business has to be operated by people who can take full charge of the work. (Social Entrepreneur Soojung Hwang in Mercury, interviewed on 11<sup>th</sup> June 2013)

Consequently, the researcher proposes that social entrepreneurship be defined as employing two core conceptual components: social mission and market orientation. Other elements that are used as definitions in writing on the subject might be categorized as necessary conditions for successful or sustainable social entrepreneurship. Among such other elements, the researcher is aware that innovation has been critically employed to identify social entrepreneurship by a number of popular scholars. Within this empirical study, however, the researcher could not obtain enough data to include innovation as a constitutive element of social entrepreneurship. In spite of the result, the researcher acknowledges that further research might be necessary to examine the relationship between innovation and social entrepreneurship when innovation is considered a research focus.

## **7.4 Policy Implications**

As mentioned in the introduction of this chapter, this section presents responses to the research questions relating to government social enterprise promotion policy: the fifth and sixth research questions.

According to the comprehensive approach of this research to the sustainability of social enterprise, policy context is one of the fundamental structural elements in which social organizations are embedded. Policy measures for the sustainability of social enterprise are stronger in Korea than in other countries, considering policy contexts such as the SEPA, the certification system and various types of government support. Korean social enterprises show considerable dependence on public funding. A survey in 2011 showed 86% of certified social organizations had received or were receiving wage subsidies, and 84% had experienced or were experiencing research and development subsidies (Jeon et al., 2012).

#### **7.4.1 Evaluation of Policy**

It is widely accepted that the Korean Government policy has contributed to the development of social enterprise (Bidet and Eum, 2011; Hwang et al., 2011; Park, 2012). Even though government has financially supported the efforts of social enterprises to be sustainable, it has been a cause of uncertainty at the same time, as a number of policy plans have not been fully committed to (Weerawardena et al., 2010). As a comment of Weerawardena et al., government involvement with social enterprise movements has negative as well as positive sides. Although the role of government in social enterprise promotion has been significant since 2007, the year the SEPA came into effect, researchers and social entrepreneurs are insisting that it is time to change policy direction from direct financial support to indirect help such as enlarging the social economy sector and increasing opportunity to participate into public procurement, loan support, and consulting for management and PR.

As shown in the previous chapter, all social entrepreneur respondents understand that rapid growth in the sector has been possible due to powerful government involvement. When the overall positive effects of this are summarized from interviews, first of all, respondents feel that the population of Korea has started to know and understand social enterprises and the social economy better than before, thanks to government initiatives. Second, in spite of reasonable criticism, the infusion of public funding into social enterprises has been important seed money that has helped the organizations in their struggling start-up phase. Lastly, government involvement has encouraged people who have good will towards the community or society to put their social intentions into practice through participation in creating social enterprises.

Despite of positive influences, the government-led tendency has caused a few essential criticisms. According to interviewees the main criticism is around wage subsidies, with the criticism being that this support has damaged social entrepreneurs' innovation and independence and has thus made organizations less and less sustainable. This criticism might be confirmed if the economic viability of social enterprises is reviewed carefully. If we look at the findings of Jeon et al. (2012), 74% of certified social enterprises that were financially supported by government and showed positive operating profits from 2007 to 2009 became firms indicating negative operating profits in 2010, when the support was terminated. Researchers point out problems derived from the wage subsidies that take more than 70% of the annual budget for promoting social enterprise (H.-W. Kim, 2011a). According to the scholars, the wage subsidy has a tendency to lead organizations to employ too many workers

and lay off too many of them when the subsidy ends. In addition, social entrepreneurship can be damaged as entrepreneurs may put their efforts into attaining support instead of into accomplishing innovation in business.

Second, interviewees criticize the fact that the financial benefits attract pseudo social entrepreneurs who are more interested in entering the area of social enterprise in order to obtain the benefits than in achieving social purpose.

Third, policy usually targets average organizations, so appropriate options for various organizations in diverse developmental stages cannot be found. Last, backing for cultivating an appropriate environment for social enterprise has been less emphasized than direct financial support. One way that future government emphases can be devised is through discussing the current negative sides of the policy context.

#### **7.4.2 Policy Recommendations**

Most respondents as well as researchers show negative attitudes to direct financial support from government, insisting that subsidies have to be replaced by indirect help such as assistance for marketing or public procurement. Although respondents admit that government help has been supportive until now, and may still be necessary for a while, the organizations researched maintain that public policy for sustainability should be modified to shape an environment in which social enterprise can develop without public money. In this area, support for marketing, the formation of social networks, encouragement of the social

economy sector, modification of the current certification system and reorganization of the department charged with responsibility of the social enterprise policy are put forward as policy advice for the future, to create a social-enterprise-friendly environment.

### **Support for Marketing**

According to the research cases, creating a market for social entrepreneurs is one of the most pressing activities in which government should be involved. The point also appears in the survey research of Jeon et al. (2012), which shows the difficulty of creating a market for social enterprises. According to the survey, the largest proportion of respondents, 45.8%, refer to finding an appropriate proper market as their most pressing difficulty<sup>13</sup>.

First of all, central and local government should increase the opportunities of social enterprises to join in public procurement. From one point of view, social enterprises that are small and failing to find a relevant market in which to sell or supply their goods and services are eager to become stable participants in the public market. From another point of view, the size of public procurement is huge, taking 11.5% of GDP, or ₩122.5 trillion, in Korea in 2008 (Hwang et al., 2011). The amount of public procurement of social enterprise goods and services has been insignificant, showing only ₩192 billion, or 0.5%, of total purchasing by

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<sup>13</sup> Besides the difficulty of finding a market, social entrepreneur respondents mentioned their critical problems in managing social firms, such as people's low recognition of social enterprise (17.3%) and the lack of capable employees (Jeon et al., 2012).

the Korean Public Procurement Service in 2012 ('Public Announcement of Ministry of Employment and Labour', 2013). On this point, a recent revision of the SEPA in 2012 is evaluated positively by stakeholders. In the amendment, public organizations' preferential purchase of the products of social enterprises was strengthened. According to the modification, public organizations must report to the Minister of the MOEL a plan for purchasing goods and services from social enterprises as well as a record of procurement of these products in the previous year (*Social Enterprise Promotion Act*, 2012)<sup>14</sup>. In addition, the Minister must aggregate the plans and records, and announce them to the public. A narration in Saturn expresses the importance of the public preferential purchasing system, as below:

I see public preferential procurement policy as very positive, as most social enterprises are in a very poor position to create a market. The preferential purchasing system is critical, as I know social entrepreneurs' biggest concern is finding a market. (Member of staff Jiyoung Ryu of Saturn, interviewed on 18th June 2013)

Even though government enforced the amended SEPA to encourage public organizations to consume more goods and services from social enterprises in 2013, there is still strong demand from social firms for opportunities to enter the public market to be increased. In

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<sup>14</sup> With regard to preferential purchasing by the public sector, the previous SEPA just stipulated that public organizations must include a separate purchasing plan for goods and services from social enterprises when they constituted a procurement plan (*Social Enterprise Promotion Act*, 2010)



addition, considering the minute proportion of social enterprise products that make up public procurement, there could be a number of chances to encourage social organizations to join the public market.

Second, future government initiatives should concentrate on supporting social enterprises in finding a market in the private sector. This is surely natural, since the main field for social enterprises is the market in the private area. It was a positive move for government, in 2012, to have invested in creating an on-line shopping mall that could be shared by social enterprises.

In spite of those efforts a number of social enterprises are struggling in finding a market for their product, and managers of social ventures referred to their low capacity to undertake PR and marketing as one of major their weaknesses<sup>15</sup> (Jeon et al., 2012). Therefore, public resources available to raise the sustainability of social enterprises should flow more into areas that could complement the weakness of their PR and marketing.

### **Enriching Social Enterprise Networks**

The early stage of Korean social enterprise policy has so concentrated on increasing the number of organizations that it is revealing limitations in supporting the advancement of

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<sup>15</sup> According to a survey by Jeon et al. (2012), low capacity in PR and marketing was regarded as an organizational weakness by 19.2% of all respondents. As additional weak points, 25.1% and 9.0% of respondents referred to the financing of projects and price competitiveness respectively.

social enterprise through the stages of growth (Jeon et al., 2012). In addition, according to Kim's (2011c) evaluation of five year social enterprise promotion policy as an area for shaping a social-enterprise-friendly culture and environment, this has mostly been insufficient. The degree of people's understanding of social enterprises and the diffusion of a social-enterprise-friendly culture are still not enough, considering the fast growth in the number of the organizations (Jeon et al., 2012). In terms of their environment, most social firms have constituted and participated in diverse networks that include various members such as academics, managers in for-profit companies, consultants and government officials. Social entrepreneurs and organizations can share useful information about business, management, policy changes and experiences within the networks. Also, the networks can take an important role in boosting organizational sustainability through helping members shape co-production, develop joint projects and joint logistics systems, and activate transactions between themselves (Jeon et al., 2012; N. Jung, 2013). Members of the networks can be motivated and encouraged by other social entrepreneurs' activities in operating their social companies (Center for the Advancement of Social Entrepreneurship (CASE), 2008).

A participant in the research, Junki Lee of Moon, notes that 'Policy efforts to encourage cooperation and solidarity between social organizations in the community are necessary. Until now, however, there has not been enough interest in this policy emphasis, because the outcome of such efforts is difficult to quantify. To advance to the next step, policy should focus on shaping the ground for cooperation and solidarity'.

Regarding cultivating a base for solidarity, Jeon et al. (2012) request bold public initiatives to support social enterprises in creating and maintaining social networks in which social entrepreneurs, funders, researchers and ethical consumers can participate. The Korean government launched a project to support the shaping of a social web called Nationwide Network for Social Enterprise Promotion in 2011. The main members of the web consist of the YMCA, the YWCA, religious communities, the Citizens' Coalition for Economic Justice, the Korean State Council of Lions Clubs International, Rotary Korea, the Community Chest of Korea<sup>16</sup>, researchers, the Korean Chamber of Commerce and Industry, the KOSEA, the Korean Central Council for Social Enterprise, and central and local governments ("Social Enterprise Support - Network," n.d.). The main purpose of the network is to create a social enterprise environment in the community through private-public partnership. The network makes efforts to structure market environments beneficial to social enterprise and shape resource mobilizing systems at local level. Practitioners in the field can raise and reflect on policy agenda in the policy-making process using the network.

It is a little early to evaluate the performance of the network, allowing for the short period of time it has had for practical activities. In spite of the worthy intent of the web, however, there is already a threat of deactivation because of conflicts of interest between members,

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<sup>16</sup> As the largest nationwide charity, which includes 16 local bodies, Community Chest of Korea (CCK) was established according to the Community Chest of Korea Act in 1998. As an independent and non-governmental organization, CCK is the only legally incorporated fund-raising and distributing body in Korea ('Community Chest of Korea', n.d.).

especially mutual distrust between civil activists and local government officials. From his experience of being involved in the early stages of constituting the web, the researcher witnessed quite a large gap between the viewpoints of NPO members and those of government officials. People from the non-profit sector thought they should take the main role in the web, and they considered public officials as just supporters. In addition, they complained about the over formal, hierarchical, slow public processes. Public officials in the network did not trust civil activists either, seeing them as irresponsible competitors. They believed that they should lead the web, as the principal financial sponsor for the network, resisting the initiative of the private sector.

Considering the characteristics of social enterprises as members of the social economy sector, the spontaneity and independence of organizations must be respected. On this point, it is quite desirable for NPOs to take a lead on the web. And, central government, which better understands the necessity for private sector initiative than local governments, should coordinate the contributions of the different groups. In addition, central government should encourage energetic activities on the web, showing a continuous interest in supporting policy for the network. According to Mulgan (2006), better government for social enterprise has to be open, reachable, vigorous and supportive. If government considers social enterprises and NPOs as its competitors, then the network is likely to get into difficulties very fast (Mulgan, 2006).

## **Encouraging the Social Economy Sphere**

As discussed in the theoretical framework chapter and the findings chapter, the social economy is one critical sphere where social enterprise is embedded. If the area is rich and strong, it can be said that the environment for social enterprise activities is fertilized. Despite the importance of the social economy, full-scale discussion of the area was ignited only after the SEPA was enacted in 2006. The situation of the Korean social economy is unclear in terms of its definition, membership and size, so it appears differently according to different researchers and their methods (Song, 2011). In addition, according to Kim (2014), social economy policy in the country has failed to coordinate and integrate organizations into the spectrum. The scholar criticizes as fragmented the policy and public system for social economy organizations such as social enterprises, cooperatives, township enterprises, self-support enterprises and rural community enterprises. As shown in Table 7-1, in spite of similarities in the social purposes of these organizations, all Ministries charged with developing policy for each organization have constituted their own separate support plans for marketing, finance, networking and training, without seeking to develop fine coordination between them.

To encourage the social economy, Kim's recommendation of drawing up a General Act for the Social Economy is persuasive and relevant. Kim (2014) insists that the importance of the social economy should be put on the national level agenda through the enactment of such an act. The Act must present the definition and boundaries for the Korean social economy as well as the integration of public resources for the sector; and it should boost private

volunteering and donation (Kim, 2014). In addition, Kim suggests that a public organization like the OCS in the UK should be established according to the Act.

Table 7-1) Important government initiatives for the social economy

Project Name	Ministry	Characteristics
Social Enterprise Promotion Initiative	Ministry of Employment and Labour (2007)	Focusing on job creation for the disadvantaged
A Master Plan for Cooperatives	Ministry of Strategy and Finance (2012)	Encouraging spontaneous activities of cooperatives
Township Enterprise Promotion Initiative	Ministry of Security and Public Administration (2010)	Focusing on profitability based on the local community
Rural Community Enterprises Promotion Initiative	Ministry of Agriculture, Food and Rural Affairs (2011)	Focusing on business needs in rural areas
Job Creation Project for Women in Rural Area	Ministry of Gender Equality and Family	Focusing on creating jobs and increasing income for women in agricultural districts

Source: Modification of Kim's (2011, p. 47) work

With regard to strengthening the social economy, nurturing research groups and supporting bodies for the sector could be additional significant issues. Therefore, government policy for enriching the social economy sphere should not miss out a strategy to increase support groups for the sector. The narrative from Mars expresses the point clearly.

Policy should make social enterprises be self-sufficient...it needs to improve the system. The role of intermediate support organizations in the social economy sphere has to be more diversified and specialized. Additionally, more research groups and training systems for the social economy should appear. (Social entrepreneur Koeun Han of Mars, interviewed on 20th June 2013)

## **Modification of Certification System**

In the Korean context, only certified social enterprises can use the title of social enterprise and take government support. A number of researchers and practitioners show an unfavourable attitude toward the certification system, although they understand why the system was needed at the early stages of the social enterprise movement in Korea. As explained in previous chapters, one of most prominent characteristics of Korean social enterprise can be described as strong government initiative (Song, 2011). The core of government involvement might be said to be financial support to social enterprises. The government, which intended to nurture a lot of social firms in a short period of time, has supplied a large amount of money to nurture social companies, and the financial aid is closely connected with the certification structure (Ryu, 2011).

According to Kim (2011a), public awareness of social enterprise was quite low and the number of organizations which could be called as social enterprises was small when the SEPA was passed in 2006. In this situation, the government selected the certification tool to exclude certain organizations that were only interested in taking public support without having a social mission, as well as to make the concept and brand of social enterprise take root in society.

In terms of the sociological position, the approach can be said to reflect institutional perspectives which argue that organizations can acquire resources through legitimacy rather than effectiveness or efficiency (Dart, 2004). Reviewing Kim's evaluation of the certification system, the system can be said to accomplish its purpose to some extent (H.-W.

Kim, 2011a). A positive image of social enterprises was shaped and spread in society in a short period of time thanks to the certification system (H.-W. Kim, 2011a; Ryu, 2011).

Although there are a few researchers and practitioners who assess the certification scheme in a positive way, a number of stakeholders point out its limitations and problems of it at the same time.

First of all, several researchers have concerns about an institutional isomorphism of Korean social enterprise (Jang, 2008; Ryu, 2011). According to DiMaggio and Powell (1983), newly emerged organizations created by rational players gradually become homogenous with the sort of previous organizations that they made efforts to reform. Once a certain novel organizational field is institutionalized and reaches a particular point, then the variety of the field decreases as a result of institutional isomorphism (DiMaggio and Powell, 1983). This seems to cause greater concern if the field is a social enterprise area that is believed to have to be filled with innovation and diversity (Reid and Griffith, 2006).

The coercive, mimetic and normative procedures of organizational isomorphism are explained by DiMaggio and Powell (1983). Coercive isomorphism happens when a specific field of organizations faces legitimised governmental or environmental norms that have to be followed. Mimetic procedures come when organizations facing uncertain or risky situations imitate other organizations in order to lessen the dangers. Normative isomorphism is created when related professional groups and advanced education give organizations legitimacy (Reid and Griffith, 2006).



Reviewing the Korean context, the probability of a coercive isomorphism process is particularly likely, as the certification system asks all social enterprises to meet seven strict conditions. Legal regulation might cause institutional isomorphism in the Korean social enterprise field, which must address diverse social issues with creative, innovative and varied approaches. The coercive isomorphism manifested by certification can be criticized as limiting indigenously diverse organizational development of Korean social enterprises.

One narrative from Mars severely criticizes the public certification approach:

Social enterprises should progress toward self-sufficiency. For that, the system has to be improved. For example, the regulation that no one can describe their business as a social enterprise without public permission is strange. As experts have been indicating for several years, the certification structure should be modified. (Social entrepreneur Koeun Han of Mars, interviewed on 20th June 2013)

Explaining the tendency of isomorphism, the researcher recognizes the influence of agents' contracts from this point of view. This is quite a conflicting aspect or assumption of the theoretical base that the researcher draws on. As explained in Chapter 3, the researcher drew up his theoretical framework based on Giddens's structuration theory and Mellahi and Wilkinson's integrative approach to the study of organizational failure. Those organizing perspectives assume a dynamic and balanced inter-relationship between structure and agent. The researcher, basically agreeing that there is a dynamic relationship between context and agency, believes that various types of social enterprise may well emerge in spite of the coercive force of organizational isomorphism, thanks to the active behaviours of

autonomous agents. However, the subject of isomorphism will not be further examined here because it is not a main topic of the thesis. In addition, it might be too early to explore isomorphism, considering the relatively short history of Korean social enterprise. The isomorphism of social enterprise in the country would, however, be an interesting research topic in the near future.

Secondly, scholars argue that the independent growth of various social enterprise types that could create innovative approaches to social problems is limited by the certification system and short-term purposes of public policy (S. Jung, 2013; Nam et al., 2010). According to Song (2011), strong leadership by the state based on the certification system does not permit the high degree of autonomy that social enterprises should possess.

Last but not least, Kim (2010b), Kim (2009), and Kim et al. (2011) insist that the certification system prevents the social enterprise sphere from achieving quantitative growth, as the conditions necessary to be certified by the government are too strict. It works as a barrier to entry, especially for organizations that are too small to meet the conditions (S. Kim, 2009). Thus organizations have to spend too much time in preparing a lot of documents to meet the conditions for certification.

Therefore, a number of practitioners and scholars propose reform of the government certification method. They insist that, in the short term, the government should not only clarify conditions for being qualified as a social enterprise but also simplify the documents that must be submitted (S. Kim, 2009). And they argue that, in the long term, in order to

encourage the appearance of innovative and diverse types of social enterprise the current certification system has to be replaced by a registration system (Kim et al., 2011; Kim, 2010b). Kim (2011a) proposes certification for high-flying social enterprises instead of for every social enterprise, since the system has completed its mission of both spreading a positive image of social firms in society and forming trust for a new type of organization.

### **Reengineering a Government Body Charged with Social Enterprise Policy**

The Korean social enterprise movement, mainly led by the MOEL among government departments, has regularly been criticized by scholars and practitioners. According to Kim (2011b), it is difficult to promote social enterprise without inter-ministry cooperation, because the businesses of different organizations are connected with multiple ministries. In the Korean policy context, programs for promoting social enterprise are considered the job of the MOEL, so the result of the projects is considered to be the achievement of this government body. As a result, other ministries are not likely to be active in the social enterprise movement and are showing a tendency to create and support their own social organizations, which are not certified social enterprises but very similar to them in terms of their social missions and business activities. For example, the Ministry of Public Administration is operating a project of Township Enterprises; the Ministry of Agriculture, Foods and Rural Affairs has Rural Community Enterprises; and the MOHW has an initiative called Self-Support Community Business. All could be categorized into the wide concept of social enterprise even though they cannot necessarily meet the seven legal conditions for the certification. However, it is not necessary to see this as a negative situation if there is good

coordination between ministries. Lack of a coordinating process, however, causes a few problems in the field of social enterprise.

First of all, potential social innovators as well as current social entrepreneurs are confused by public initiatives related to social organizations. In many cases, they do not understand why each ministry is operating so many initiatives that are not too different from each other. According to Kim (2011), such sectionalism by related ministries causes a waste of the country's resources as well as an overlap of government projects. Second, the situation causes certain organizations to seek various possibilities for receiving public money. In other words, some organizations that have immoral intentions are likely to take multiple forms of support from ministries; so it happens that a township enterprise supported financially by the Ministry of Public Administration and Security also receives similar aid from MOEL if it is qualified as a certified social enterprise. Last but not least, confusion occurs at the local level where the business of social organizations is conducted. Thus, it is very usual that one or two project teams in local government are taking forward various but similar programs of social organizations assigned to them by different ministries.

To eliminate these problems, authors and social entrepreneurs are arguing for the improvement of public governance of the social enterprise movement. Agreeing with that opinion that the movements is the inter-ministry and national agenda, they maintain that the mission could be transferred to other government bodies, such as the Presidential Office, which is appropriate to pursue these agendas (H.-W. Kim, 2011b; Kim, 2014). Kim (2014) insists that a Presidential Committee has to deal with the social enterprise movement, citing

the UK example of transferring the question of social enterprise from the DTI to the OTS, which is now called the OCS in the Cabinet Office. Considering that the characteristics of social enterprise initiatives relate to various ministries, it is necessary for responsibility for social enterprise policy to be taken over by the Korean Presidential Office or Prime Minister's Office. One narrative from Jupiter suggests the necessity of handing over responsibility to the Prime Minister's Office.

I think the Korean Social Enterprise Promotion Agency, which exists as a Ministry of Employment and Labour affiliated organization, is experiencing a lot of trouble because of the way things are divided up between ministries. I advised both camps at the last presidential election that the agency should be put under the Prime Minister's Office in order to decrease sectionalism between departments. (Social entrepreneur Minsu Yoon of Jupiter, interviewed on 10th June 2013)

## **7.5 Conclusion**

In this chapter, the researcher has examined sustainability in the practical field and in the policy area; social entrepreneurship; and policy evaluation and the future direction of policy. These issues were basically addressed with related theoretical debates, literature and the research findings.

Regarding the first topic, earned-income strategy is likely to be inappropriate to explain the Korean social enterprise context because stakeholders in Korea consider social aim,

profitability and financial independence from government simultaneously when they accept sustainability as a goal. In addition, the idea that social enterprises should become sustainable or self-sufficient depending on earned-income alone is not likely to be attractive to Korean social entrepreneurs. Therefore, they make efforts to find various income streams, including donation, public support and profit rather than depending on earned-income alone.

The researcher has recommended a simple definition of social entrepreneurship based on the related literature and the findings of the research. Social entrepreneurship should be understood as two essential elements, that of social mission and that of business on the market, so it can be defined as activities and process based on commercial trading on the market to accomplish social purpose.

Drawing on the findings and the literature the chapter has explained the policy implications of these for improving the sustainability of Korean social enterprise. These implications focus on constructing a better environment for the social enterprise movement through reinforced support for marketing, shaping a network of organizations, enlarging the social economy sector, modifying the certification system, and reengineering the government system responsible for social enterprise policy.

## CHAPTER 8 CONCLUSION

### 8.1 Introduction

This thesis was devised to examine which elements influenced the sustainability of Korean social enterprises and how they did so. Originally introducing social enterprise as a more sustainable job creation vehicle, the Korean government has led the country's social enterprise movement since 2006. This public leadership has been strongly backed by a certification system and financial subsidies for social enterprises. Ironically, it is believed that the government's significant involvement may have had a detrimental effect on the sustainability of Korean social enterprise, and there are serious concerns about the sustainability of social organizations among practitioners as well as among scholars and government officials.

To explore this current critical issue in the social enterprise movement, the research intended to find various factors that had affected sustainability, and to understand how these factors exerted their influence by using a theoretical lens: a comprehensive framework. Then, based on policy evaluations by interviewees and other researchers, the researcher planned to recommend policy implications.

In this chapter, the researcher summarizes the research results and indicates how they answer the research questions. Then, an evaluation of the research is introduced, referring to methodological appropriateness, contributions, and limitations. Finally, the researcher lists potential future research issues relating to the sustainability of social enterprise.

## **8.2 Answers to the Research Questions**

The research addressed six research questions about the sustainability of Korean social enterprise, looking at the elements that affected their sustainability, the various influence of these, and related public policy.

### **The Meaning of Sustainability in the Korean Context**

The first research question asked how the concept of sustainability in social enterprise was understood and used in the Korean context. The question was critically necessary to the research because the concept of sustainability was understood and employed differently according to various organizations and contexts. In the Korean social enterprise context, even though the term had been popularly used as a policy focus and organizational aim, it was hard to find academic discussions about its meaning, or any agreement on the concept. For this reason, stakeholders were using the concept in a confusing way, for example mixing up words like sustainability, self-sufficiency, sustainable development and success.



With regard to the understanding of sustainability in social enterprise, the present study finds that the concept is understood to have three aspects by stakeholders. These are: the generation of profits, the accomplishment of a social mission, and the capacity of business to continue its development without government financial aid. Social enterprises that have their origins in NPOs concentrate more on the social dimension, while organizations developed from for-profit companies are more likely to emphasize profitability when they talk about sustainability. Organizations supported by government money state that they aim to survive in the market once public financial support ceases. Therefore, stakeholders understood that the sustainability of social enterprises should be accomplished along with meeting multiple bottom lines, even though certain organizations give more weight to social mission while others focus more on profits. In this respect, earned-income strategy, which successful social enterprises are expected to follow to achieve sustainability or self-sufficiency with the strategy alone, offers only a limited explanation of sustainability, since it disregards the social dimension of sustainability. Moreover, contrary to earned-income strategy, Korean social entrepreneurs understand that a strategy of developing various income streams is desirable for sustainability.

Regarding the public sector's understanding and usage of the word sustainability, it is hard to find agreement on the meaning of the term. Thus, sustainability, fiscal sustainability, sustainable development and self-sufficiency are all used without distinguishing between them, even in the same document, for example in social enterprise promotion plans. Review

of public documents, however, suggests that the government puts most of the focus on survival of organizations without public money.

A further finding about the understanding of sustainability is that an environmental focus, which is common in Western countries' usage of the term, is rarely found in the Korean context. Even though the protection of the environment is regarded as one of the social aims that social enterprise should address in the country, stakeholders do not understand this dimension as an independent, defining aspect of the sustainability of social enterprise.

### **Elements Influencing the Sustainability of Korean Social Enterprise**

The second research question asks which factors influence the sustainability of Korean social enterprise. The question was addressed at its most basic level in the process of creating the researcher's theoretical framework. Through reviewing a large amount of literature, the researcher was able to identify various elements which influenced the sustainability of social enterprise. These were: the social economy, market type, government policy, social entrepreneurs, staff, organization and finance. The identified drivers were placed in structural factor and agency factor categories, which were drawn from Giddens's structuration theory and Mellahi and Wilkinson's integrative approach to analysing organizational failure. The structural factor category included the social economy, market type and government policy, while people (social entrepreneurs and staff), organizations and finance were assigned to the agency factor category. The factors affecting the sustainability of Korean social enterprise were continuously confirmed through the whole process of the

research, even though they were recognized at the stage of the literature review first. For example, they were referred to and emphasized recurrently in the descriptive analysis of secondary data and the semi-structured interviews of the case studies.

### **Structural Factors and Sustainability**

The third research question asked how structural factors (social economy, market type and government policy) impacted on the sustainability of Korean social enterprise. The other research questions relating to government policy can also be summarized here. The fifth and the sixth research questions related to how Korean social enterprise promotion policy had been evaluated in terms of improving the sustainability of social enterprise, and the directions in which the actors would suggest that social enterprise promotion policy needed to be developed.

Concerning the social economy, the role of the sector was evaluated differently according to the backgrounds of the interviewees. Social entrepreneurs experienced in NPO activities regarded the social economy as an essential sphere for the sustainability of social enterprises, while interviewees who had backgrounds in traditional companies showed low understanding and expectations of the sector. In spite of these different opinions, all the interviewees agreed that in the future there needed to be increased cooperation between organizations in the social economy in order to raise sustainability. According to narratives about the social economy's influence on sustainability, the sphere could enhance the organizational sustainability of social enterprises through supplying competent social

entrepreneurs, supporting finance and providing a basis for a human network in which stakeholders could share information and cooperate over business.

With regard to market type, every interviewee maintained that his or her current type of business was appropriate in terms of its organizational sustainability. When the appropriateness of business choice to improve sustainability was considered, narratives divided the appropriateness into social and profitable aspects. All the business types in research, loan brokerage, senior care, education, restaurant, cleaning and recycling were insistent about their appropriateness in term of contributing social benefits. Entrepreneurs in the cleaning and restaurant businesses were not sure about the profitability of their business, while those in the other industries believed the profitability.

As for the influence of government policy on sustainability, government has undertaken an essential role in leading the social enterprise movement at an early stage of its development. Most interviewees understood that the external fast growth of the social enterprise sector was due to government leadership based on the certification system and financial subsidies. Because of the government's strong involvement, the population began to recognize the new type of organization, social enterprise, in a comparatively short period of time. Moreover, the solid backup by the state was referred to as an opportunity for a competent human resource infusion into the social enterprise sphere.

Regarding the fifth research question, the evaluation of policy in terms of sustainability, the respondents maintained that the top-down way showed limitations in terms of enhancing the

sustainability of organizations. They even stated that the sustainability of social enterprises was damaged by government financial subsidies. Regarding negative opinions about government policy, criticism centred on wage subsidies as well as on support being overwhelmingly focused on new social enterprises rather than on helping organizations in the various stages of their development. In spite of some enthusiasm for the system on the part of some people, wage subsidies were understood to weaken sustainability, as they discouraged the social entrepreneurship and innovation of organizations. Government support focusing on creating new companies, to accomplish a fast quantitative growth in the number of social enterprises, was criticized as well because maturing and mature social enterprises could not find appropriate support that could make them more sustainable.

Concerning the sixth question, on desirable future policy directions, most respondents argued that current public-led social enterprise initiatives should be replaced by private-led movements. They believed a better way for public support to enhance sustainability would be to create better environments for business rather than to subsidize social enterprises directly. Therefore, they insisted that the wage subsidies should decrease and instead support for marketing, management, and funding should be reinforced.

Drawing on the findings and literature, the researcher introduced several policy implications. First of all, government policy should focus on support for marketing through enlargement of the opportunities for social enterprises to have a share of public procurement. Support for developing a network of social enterprises and fortifying the social economy sphere were

also presented as policy missions. Changing the current certification system and developing links with different ministries in relation to social enterprise policy were also suggested.

### **Agency Factors and Sustainability**

The fourth question asked how agency factors (social entrepreneurs, employees, organizations and capital) impacted on the sustainability of Korean social enterprise. With regard to social entrepreneurs, most respondents understood that social entrepreneurs could play the most important role in improving sustainability. Innovation, continuous challenge, and passion, which are believed to be the characteristics of sustainable organizations, were argued to be closely connected to social entrepreneurs. According to respondents, a social enterprise promotion policy focusing on fostering and training social entrepreneurs would be an effective method of improving organizational sustainability. The entrepreneurs' critical role was revealed as showing a tendency for organizations to depend too much on a few entrepreneurs in the Korean context. This tendency was common in small sized social enterprises where their entrepreneurs undertook a wide range of jobs.

Concerning employees and sustainability, it was maintained that sustainability could be improved when staff understood and agreed with an organization's core mission. This belief was expressed in phrases like 'employees' sense of duty', 'spontaneity' and 'self-esteem'. The narrative from Saturn, where the opinion was most noticeable, stated that staff's agreement with the organizational mission was so essential that the mission was decided through extensive discussions in which full-time employees joined. Furthermore, in this

organization, not only did managers regard regular members of staff as social entrepreneurs but staff thought of themselves as social entrepreneurs.

In terms of the organizational aspects of social enterprise influencing sustainability, there were two significant findings. These findings were about the horizontal relationship as a desirable culture, and about organizational change as a strategy to achieve sustainability. First of all, most respondents maintained that a horizontal culture could contribute to enhancing organizational sustainability. In a liberal atmosphere, members could express their opinions to each other and to managers openly. This culture, according to narratives, could be an important point in maintaining members' satisfaction. In many cases, employees were satisfied with their jobs in social enterprises not because of financial payment but because of the horizontal culture. A manager in Saturn always reviewed the organizational culture to see whether enough communication was occurring between members, because she believed that top-down culture was noxious to the company. However, social entrepreneurs having for-profit company experience showed concern at the inefficiency that might occur with a participatory decision-making process, even though they clearly agreed that a democratic culture in organizations was important. Second, narratives referred to continuous change as a critical strategy in sustainable organizations. With the successive changes of management structure at Moon and the openness to new operating systems at Saturn, those organizations had been able to overcome serious challenges.

Regarding funding, all respondents confessed that their organizations faced difficult situations when they wished to borrow from financial institutions. The trouble, according to them, was that there was believed to be a serious risk that they would not achieve sustainability. Their major complaint was that there was not an appropriate assessment tool for social enterprises that financial institutions could employ when they had to take a decision on a loan. As the current tool simply focus on financial results, disregarding the social benefits achieved by social enterprises, interviewees argued for the introduction of a new evaluation system proper to social enterprises. Moreover, respondents were resistant to the banks' practice of requesting collateral when making their loan decisions.

### **8.3 Evaluation of the Research**

#### **Appropriateness of the Methodology**

The research addressed various issues surrounding the sustainability of Korean social enterprise, employing the comprehensive approach described in Chapter 3. To answer research questions related to sustainability, the researcher employed a mixed strategy of a quantitative preliminary and a qualitative primary plan. With the mixed approach, the researcher had the opportunity to use numeric information to examine sustainability according to social enterprise market type, as well as to understand the phenomenon deeply using textual data. Even though access to the numeric data was incomplete, the statistics



supplied by the KOSEA were useful for understanding the current sustainability situation of social enterprise by market type.

As a research design, a multiple case study approach was appropriate to understand contemporary issues (Yin, 1989) connected to diverse factors and dimensions (Oliver and Kandadi, 2006). A total of seven cases, including one pilot case, were studied. Six cases were selected through a pre-constructed theoretical sampling strategy, and the pilot case was chosen by the researcher drawing on his social network. The multiple cases possessing different sustainability situations, businesses, sizes and ages provided fruitful stories about the research issues.

Data for the case studies were collected mainly through semi-structured interviews and using an interview guide. The semi-structured interviews were a successful way of collecting narratives containing rich information to answer the research questions. Narratives did not wander too far, since the researcher could focus the conversation on the research topic using his interview prompts. At the same time, he could obtain narratives that were unexpected but related to the topic, allowing respondents to continue their stories as long as they were connected to the research issues. Narrative analysis was a fascinating approach to identifying and understanding connected themes relating to sustainability and containing complex characteristics.

## **Contributions**

The contributions of the thesis could be described through the three dimensions of theory, methodology and policy implications. Regarding the theoretical contribution, first of all, to study the sustainability of social enterprise, the thesis presented a theoretical framework which was rooted in social and organizational theories. Previous research into the topic in Korea had simply enumerated a number of factors influencing sustainability rather than identifying them with a theory-based framework. The researcher's comprehensive approach, however, categorized the factors into structural and agency groups, employing Giddens' structuration theory and organizational failure theories. With this approach the thesis supported the structuration theory, in that the results of the research found that stakeholders understood that the social phenomenon, sustainability, was determined by structural elements as well as agency elements.

Secondly, identifying the social economy as a structural factor is another theoretical contribution of the thesis, because it is a new attempt in social enterprise study. The thesis found that the social economy, which had not been referred to as an independent element influencing sustainability, was understood as an important foundation for social enterprise activities. Based on this comprehensive approach, the thesis contributes to accumulating knowledge of the social economy as a critical element affecting the sustainability of social enterprise.

Academic exploration of the term sustainability is the last theoretical contribution of the

thesis. The meaning and usage of the term sustainability has been critically examined in the thesis for the first time in Korean literature on social enterprise. As explained in Chapter 3 and Chapter 7 the term sustainability had been employed confusingly without extensive and systematic investigation into the context of the country. The tendency had been similar in the academic area, practical field and policy domain. The thesis might be an opportunity for stakeholders to contemplate and produce further knowledge concerning a clear definition and usage of the concept of sustainability in social enterprise.

Concerning a methodological contribution, most research into the sustainability of Korean social enterprise had employed quantitative analysis using survey data (Chang, 2011; Lee, 2008). Even though there were a few similar studies on sustainability carried out by analysing texts from interviews (Choi, 2012; Kim, 2010a), qualitative research employing narrative analysis had rarely been found in social enterprise study in Korea. Therefore, a thesis with a narrative approach was likely to provide useful reference material to scholars who intended to employ a narrative analysis in qualitative research into organizations in the country.

Finally, as shown in Section 7.4, the thesis makes a practical contribution by indicating desirable future policy directions to improve the sustainability of Korean social companies. As improving the sustainability of organizations is a critical issue facing social entrepreneurs, scholars and government officials, recommendations made by the thesis might provide valuable advice and references to be used in the process of social enterprise policy change.

## **8.4 Future Research Issues**

The thesis was successful in answering research questions about the sustainability of Korean social enterprise. However, in spite of methodological appropriateness and making several contributions, the thesis has limitations that can be attributed to the limited time and resources available to the researcher, and the restricted amount of data he had access to. In this section, a few possible research issues arising from the limitations of the thesis will be introduced.

### **Evaluation Tool for Sustainability**

In the thesis, the researcher defined sustainability in the context of social enterprise and then roughly evaluated the levels of sustainability of various enterprises, since the basic purpose of the study was to understand the relationship between various factors and sustainability. Moreover, the researcher had to consider whether it might be too early to assess the sustainability of social enterprise, because Korean social enterprise history was comparatively short. Since the thesis has illuminated the term sustainability and the relationship with factors that influence it, the next promising research issue could be constructing a more elaborate evaluation tool or criteria by which to assess the sustainability level of social enterprise. The topic might involve a study of how social benefits accomplished by social companies can be measured.

### **Relationship between Factors**

The comprehensive approach in the thesis has presumed active interconnection between factors (see Section 3.3). In other words, the researcher has argued that structural factors and agency factors closely interact. In addition, elements in the structural and agency categories are regarded as interacting with one another. The thesis, however, could only address the interconnection between factors to a restricted extent, because of the limited time and resources available to the researcher. For example the thesis found that social economy (structural factor) and social entrepreneurs (agency factor) were connected because the former was a source of supply for the latter. Interviewees argued that public financial support (structural factor) had weakened the innovative activities of social entrepreneurs (agency factor). The inter-relationship of the factors is likely to be various and complex, moving through diverse paths. It is natural that certain factors are related to more than two other factors. Therefore, based on a comprehensive approach, the illumination of the complicated relationship between factors could be a possible research topic.

### **Quantitative Analysis Using Time Series Data**

The thesis could not conduct statistical analysis, in spite of the existence of useful and extensive numeric information, because access to the data was denied. Since social enterprise was institutionalized in 2006, numeric data for the companies had been being accumulated by the MOEL. However, at the moment there is data only for seven years, from 2007 to 2013, and this is a relatively short period of time to be employed in time series

analysis. Nevertheless, it will be significant time series data that can be used to understand Korean social enterprise in a few years' time. Considering the range of the data, it might supply valuable information for various time series, such as changes in financial results, achievement of social purpose, size, the amount of government support, and business types, over the years. With these data scholars could conduct quantitative time series analysis of the connections of each element in the researcher's theoretical framework, such as a certain market type, or government support, and sustainability. However, it is of course necessary for the government, which holds the information, to make it available for public use.

## APPENDIX

### 1. Situation of Each Market (2010), reconstituted from Gwak's work (2011)

#### <Manufacturing Market>

Size	Number (%)	146 (29.7%)
	Employment (the disadvantaged)	3,452 (2,584)
	Average Assets, million ₩ (1,000 £)	641 (356)
Sales and Profits, million ₩ (1,000 £)	Total Sales	156,796 (87,109)
	Average Sales	1,074 (597)
	Average Operating Profits	-199 (-111)
	Average Net Profits	11 (6)
	Sales to Public Market	57,902 (32,168)
	Sales to Public Market / Total Sales	36.9%

#### <Environment Market>

Size	Number (%)	102 (20.8%)
	Employment (the disadvantaged)	2,749 (1,743)
	Average Assets, million ₩ (1,000 £)	592 (329)
Sales and Profits, million ₩ (1,000 £)	Total Sales	82,518 (45,843)
	Average Sales	809 (449)
	Average Operating Profits	-97 (-54)
	Average Net Profits	21 (12)
	Sales to Public Market	13,034 (7,241)
	Sales to Public Market / Total Sales	16.4%

#### <Nursing and Home Care Market>

Size	Number (%)	65 (13.2%)
	Employment (the disadvantaged)	3,041 (1,543)
	Average Assets, million ₩ (1,000 £)	432 (240)
Sales and Profits, million ₩ (1,000 £)	Total Sales	39,804 (22,113)
	Average Sales	612 (340)
	Average Operating Profits	-190 (-106)
	Average Net Profits	20 (11)
	Sales to Public Market	12,830 (7,128)
	Sales to Public Market / Total Sales	33.7%

<Culture (Tourism, the Arts and Sport) Market>

Size	Number (%)	59 (12.0%)
	Employment (the disadvantaged)	1,008 (444)
	Average Assets, million ₩ (1,000 £)	218 (121)
Sales and Profits, million ₩ (1,000 £)	Total Sales	20,459 (11,366)
	Average Sales	347 (193)
	Average Operating Profits	-217 (-121)
	Average Net Profits	8 (4)
	Sales to Public Market	6,716 (3,731)
	Sales to Public Market / Total Sales	33.7%

<Education Market>

Size	Number (%)	37 (7.5%)
	Employment (the disadvantaged)	623 (363)
	Average Assets, million ₩ (1,000 £)	291 (162)
Sales and Profits, million ₩ (1,000 £)	Total Sales	9,962 (5,534)
	Average Sales	269 (150)
	Average Operating Profits	-159 (-88)
	Average Net Profits	14 (8)
	Sales to Public Market	3,368 (1,871)
	Sales to Public Market / Total Sales	33%

<Childcare Market>

Size	Number (%)	25 (5.1%)
	Employment (the disadvantaged)	715 (415)
	Average Assets, million ₩ (1,000 £)	210 (117)
Sales and Profits, million ₩ (1,000 £)	Total Sales	4,588 (2,549)
	Average Sales	184 (102)
	Average Operating Profits	-211 (-117)
	Average Net Profits	60 (33)
	Sales to Public Market	814 (452)
	Sales to Public Market / Total Sales	17.7%

<Social Welfare Market>

Size	Number (%)	12 (2.4%)
	Employment (the disadvantaged)	529 (293)
	Average Assets, million ₩ (1,000 £)	913 (507)
Sales and Profits, million ₩ (1,000 £)	Total Sales	14,286 (7,937)
	Average Sales	1,191 (662)
	Average Operating Profits	-220 (-122)
	Average Net Profits	6 (3)
	Sales to Public Market	1,190 (661)
	Sales to Public Market / Total Sales	9.8%



<Healthcare Market>

Size	Number (%)	10 (2.0%)
	Employment (the disadvantaged)	491 (129)
	Average Assets, million ₩ (1,000 £)	989 (549)
Sales and Profits, million ₩ (1,000 £)	Total Sales	16,659 (9,255)
	Average Sales	1,666 (926)
	Average Operating Profits	162 (90)
	Average Net Profits	-66 (-37)
	Sales to Public Market	1,751 (973)
	Sales to Public Market / Total Sales	10.7%

<Others>

Size	Number (%)	35 (7.1%)
	Employment (the disadvantaged)	835 (713)
	Average Assets, million ₩ (1,000 £)	617 (343)
Sales and Profits, million ₩ (1,000 £)	Total Sales	31,399 (17,444)
	Average Sales	897 (498)
	Average Operating Profits	-209 (-116)
	Average Net Profits	22 (12)
	Sales to Public Market	6176 (3,431)
	Sales to Public Market / Total Sales	19.7%

<Total>

Size	Number (%)	100 (100%)
	Employment (the disadvantaged)	13,443 (8,227)
	Average Assets, million ₩ (1,000 £)	520 (289)
Sales and Profits, million ₩ (1,000 £)	Total Sales	376,470 (209,150)
	Average Sales	767 (426)
	Average Operating Profits	-170 (-94)
	Average Net Profits	16 (9)
	Sales to Public Market	103,781 (57,656)
	Sales to Public Market / Total Sales	29.4%

## **2. Interviewees in the Case Studies**

**<Sun>**

**- Sangmin Lee**

[Redacted]

- Position: General manager
- Background: Private sector (bank)
- Years in the company: 10 months
- Interview time & place: 09.00-10.00, 12<sup>th</sup> June 2013, meeting room in Sun

**- Seongki Lee**

[Redacted]

- Position: Manager
- Background: Private sector (bank)
- Years in the company: 7 years
- Interview time & place: 10.10-11.10, 12<sup>th</sup> June 2013, meeting room in Sun

**- Kyungkyu Lee**

[Redacted]

- Position: Staff
- Background: Private sector
- Years in the company: 3 years
- Interview time & place: 11.20-12.30, , 12<sup>th</sup> June 2013, meeting room in Sun

**<Mercury>**

**- Soojung Hwang**



- Position: Vice president
- Background: NPO
- Years in the company: 7 years
- Interview time & place: 15.00-16.30, 11<sup>th</sup> June 2013, Meeting room in Mercury

**- Okbin Kim**



- Position: Staff (Elderly care helper)
- Background: Private sector
- Years in the company: 5 years
- Interview time & place: 16:40-17:10, 11<sup>th</sup> June 2013, Meeting room in Mercury

**- Hiju Yoon**



- Position: Staff
- Background: Private sector (Bank)
- Years in the company: 5 years
- Interview time & place: 17.10-18.20, 11<sup>th</sup> June 2013, Meeting room in Mercury

**<Venus>**

**- Soohyun Kim**



- Position: General manager
- Background: Private sector
- Years in the company: 6 years
- Interview time & place: 09.00-10.30, 13<sup>th</sup> June 2013, Office of the general manager in Venus

**- Suji Kim**



- Position: Staff
- Background: Private sector
- Years in the company: 6 years
- Interview time & place: 11.00-12.20, 13<sup>th</sup> June 2013, Office of the general manager in Venus

**<Mars>**

**- Koeun Han**



- Position: General manager
- Background: NPO
- Years in the company: 7 years
- Interview time & place: 15.00-16.00, 20<sup>th</sup> June 2013, Coffee shop in Haja Centre

- **Seonmi Lee**



- Position: Staff
- Background: Private sector
- Years in the company: 2 years
- Interview time & place: 16.00-17.00, 20<sup>th</sup> June 2013, Coffee shop in Haja Centre

- **Junghoon Yeon**



- Position: Volunteer
- Background: Student
- Years in the company: 5 months
- Interview time & place: 13.30-14.40, 20<sup>th</sup> June 2013, Coffee shop in Haja Centre

<**Jupiter**>

- **Minsu Yoon**



- Position: General manager
- Background: Private sector
- Years in the company: 19 years
- Interview time & place: 09.00-10.30, 10<sup>th</sup> June 2013, Office of the general manager in Jupiter

**- Jin Jeon**



- Position: Staff
- Background: Private sector
- Years in the company: 6 years
- Interview time & place: 10.30-11.30, 10<sup>th</sup> June 2013, Office of the general manager in Jupiter

**- Jia Lee**



- Position: Staff
- Background: Private sector
- Years in the company: 1 year
- Interview time & place: 11.30-12.30, 10<sup>th</sup> June 2013, Office of the general manager in Jupiter

**<Saturn>**

**- Hana Jeong**



- Position: Manager
- Background: NPO
- Years in the company: 11 years
- Interview time & place: 11.00-12.00, 18<sup>th</sup> June 2013, Meeting room in Saturn  
(2<sup>nd</sup> interview: 11.00-12.00, 22<sup>nd</sup> June 2013, Coffee shop in Saturn)

**- Jiyoung Ryu**



- Position: staff
- Background: NPO
- Years in the company: 10 years
- Interview time & place: 15.00-17.00 18<sup>th</sup> June 2013, Coffee shop in Saturn

**<Moon, pilot case>**

**- Junki Lee**



- Position: General manager
- Background: NPO
- Years in the company: 10
- Interview time & place: 14.00-17.00, 7<sup>th</sup> June 2013, Meeting room in Moon

**- Junmin Kim**



- Position: Co-manager
- Background: NPO
- Years in the company: 2 years & 6 months
- Interview time & place: 17.10-18.40, 7<sup>th</sup> June 2013, Meeting room in Moon

### **3. Interview Guide**

#### **Background of interviewees**

Please tell me your name, age and status in your organization. (Common)

How long have you been involved in your organization? (Common)

Please explain your current role in the organization. (Common)

Please tell me the story of the birth and development process of your organization. (For social entrepreneurs)

#### **Sustainability**

How do you understand what a sustainable social enterprise is? (Common)

How and why has your organization shown a continuous surplus or deficit in operational profits? (Common)

How and why has your organization achieved more or less contribution on social purposes than the legal requirement? (Common)



## **Structural Factors**

### ***Social economy***

What is your understanding of the way the social economy has supported your social enterprise? (Common)

What is your understanding of the effects of the social economy on people in your organization, the organization and your finances? (Common)

### ***Market type***

What is your understanding of the way the type of business your enterprise belongs to has influenced the organization's sustainability? (Common)

What is your understanding of the way the type of business your enterprise belongs to is connected to the people in the organization, the organization and your capital? (Common)

What is your understanding of the way economic fluctuations have influenced the sustainability of your business? (Common)

### ***Government policy***

How do you think social enterprise promotion policy has affected the sustainability of your organization? (Common)

How satisfied are you with current government policy? What are your satisfactions and dissatisfactions with this policy? (Common)

What do you think is the desirable direction for government policy to take? (Common)

What is your understanding of the effects of government policy on people in your enterprise, the organization and your finance? (Common)

Organizational Features (Agent or agency)

### ***People***

What do you think are the characteristics of social entrepreneurs that make social enterprises more sustainable? (Common)

How have paid workers and volunteers contributed to achieve the sustainability of your company? (Common)

To make your organization more sustainable, what have you done in terms of improving human resources?

### ***Organization***

What do you think are the organizational characteristics of a more sustainable social enterprise? (Common)

What is your understanding of the way the age and size of the organization has affected the sustainability of your company? (Common)

To improve sustainability, what efforts have been made in terms of organizational aspects, such as organizational structure or culture, the decision-making process, or innovation? (Common)

### ***Finance***

How and where did you raise funds for your business? (For social entrepreneurs)

What conditions were important when you borrowed money from financial institutions? (For social entrepreneurs)

What difficulties have you suffered in raising money from private banks or public funds? (For social entrepreneurs)

What have you done to ensure stable finance for the organization? (For social entrepreneurs)

#### 4. An Example of Constructing a Narrative

**Narrative of Social Appropriateness of Business** (Interview with a social entrepreneur Junki Lee of Moon)

Original Interview Script	Constructed Narrative (P. 244-245)
<p>Interviewer: What is your understanding of the way cleaning business has influenced the organization's sustainability?</p> <p>Interviewee: Cleaning business would be profitable if we just follow socially negative practice of for-profit companies in cleaning industry. However, if we operate like other companies then we are not a social enterprise any more. We have changed negative practice that traditional firms are commonly doing in the market (Abstract).</p> <p>Interviewer: What kind of practice should</p>	<p>The narrative of Moon emphasizes the organization's role in improving the poor situation in the cleaning business area (A). In the cleaning business market, it is very common for a number of for-profit cleaning companies to commit illegal practices (O). Cleaners labouring in poor working conditions are paid less than the legal minimum wage (O). Moon, however, has complied with the legal labour conditions and even enhanced them beyond official requirements (CA). This behaviour has improved labour environments in the cleaning market, because other private companies have been influenced by the</p>

<p>social enterprises change?</p> <p>Interviewee: Many companies are naturally violating the Labour Standard Act. They are paying employers less than the legalized minimum wage. Cleaners work more than prescribed working hours in a poor working condition. Even do they have just one day off for two weeks. Many for-profit companies cut cost through not taking out four key types of social insurance for employees and not paying severance pay (Orientation).</p> <p>Interviewer: What did your company do to improve the poor situation of the cleaning market?</p> <p>Interviewee: My company is following the Labour Standard Act, so we pay over the minimum wage that rises every year. I am making an effort to improve working</p>	<p>decent management of the company (R). In fact, cleaners who had experienced this company's improved labour conditions asked for similar treatment when they worked for another, private company (R). For Moon, the cleaning business is quite appropriate as a sustainable business because it can contribute to the positive transformation of poor situations (E).</p>
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conditions of cleaners so they really like to work in my company. Every cleaner can have a day off every week and I am very careful that cleaner's daily working hours do not increase unreasonably (Complicating Action).

Interviewer: What were the effects of your company's efforts?

Interviewee: The important meaning of social companies in the cleaning market is that their existence can improve labour conditions in the market, checking for-profit cleaning companies that are showing illegal behaviour (Abstract). Cleaners who experienced my company's policy ask their current for-profit companies to treat themselves as my company did. Traditional cleaning firms cannot continue previous illegal practice in public because they become to know there are good companies

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like Moon that follow rules in the cleaning market (Resolution). In my opinion, cleaning is very proper business for social enterprises in terms of organizational sustainability because we can improve poor market practice for disadvantaged cleaners (Evaluation).

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